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THE CITY OF SAN DIEGO

DATE: February 26, 2008
TO: Council President and City Council
FROM: Lakshmi Kommi, Debt Management Director
via Mary Lewis, Chief Financial Officer *ML*
SUBJECT: Request for City Council Action – Authorization of Community Facilities
District No. 3 (Liberty Station) Special Tax Bonds, Series A of 2008

Enclosed herewith are materials relating to the proposed financing for review and consideration by the City Council:

- Request for City Council Action
- Financing Resolution – (includes log of outstanding items)
- First Amendment to the Purchase and Finance Agreement Resolution – (includes log of outstanding items)
- Executive Summary
- Staff Report
- Supplemental Indenture (includes log of outstanding items)
- Purchase Agreement (includes log of outstanding items)
- Preliminary Official Statement (includes log of outstanding items)
- First Amendment to Purchase and Finance Agreement (includes log of outstanding items)

The City's Disclosure Practices Working Group (DPWG) reviewed the financing transaction and the related financing documents on January 19, 2008, and January 20, 2008.

The City Attorney's Office will provide a memorandum addressing the due diligence process, including a list of Transaction Questions and Answers on the key issues pertaining to the proposed financing.

Debt Management staff will contact City Council staff to schedule individual City Council staff briefings.

Lakshmi Kommi
Debt Management Director

cc: Independent Budget Analyst Office
City Attorney's Office



Debt Management

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THE CITY OF SAN DIEGO

REPORT TO THE CITY COUNCIL

DATE ISSUED: March 5, 2008 REPORT NO: 08-034

ATTENTION: Council President and City Council
Meeting of March 11, 2008

SUBJECT: Operations and Maintenance costs related to Phase 2 NTC Park in
connection with the Naval Training Center Redevelopment Project

REFERENCE: Community Facilities District No. 3 (Liberty Station) Special Tax Bonds
Series A of 2008 Request for Council Action Report No. 08-031, of
February 28, 2008

REQUESTED ACTION:

This report provides the estimated operations and maintenance costs for Phase 2 of NTC Park in connection with the Naval Training Center Redevelopment Project. No action is required.

STAFF RECOMMENDATION:

This report is for information purposes only; no action is recommended.

SUMMARY:

This report is provided in connection with the City Council item pertaining to the issuance of Community Facilities District No. 3 (Liberty Station) ("CFD No. 3") Special Tax Series A of 2008 (the "2008 CFD Bonds") the proceeds of which would provide the remaining Community Facilities District funding for Phase 2 of NTC Park.

In accordance with the City's Debt Policy, an estimate of operations and maintenance costs associated with capital projects to be funded with a proposed financing is to be provided to City Council prior to, or at the time, the proposed financing is presented for City Council consideration. The City Council will be considering the proposed issuance of CFD No. 3 Special Tax Bonds Series A of 2008 in a principal amount not to exceed \$4.25 million to provide the remaining CFD funding for eligible district improvements, including Phase 2 of NTC Park in connection with the Naval Training Center ("NTC") Redevelopment Project.

The developer, McMillin-NTC, LCC ("McMillin"), expects to complete Phase 2 of NTC Park within sixteen months of the proposed bond sale, thus Phase 2 of NTC Park should be operational in early Fiscal Year 2010. This estimated completion period would conform to the accelerated time-frame set forth in the First Amendment to the NTC Park Improvement

Agreement and would be ahead of the schedule established in the Disposition and Development Agreement between McMillin and the City's Redevelopment Agency. McMillin will be reimbursed with 2008 CFD Bond proceeds for eligible expenditures incurred by McMillin to develop and complete Phase 2 of NTC Park.

Phase 1 of NTC Park was completed and acquired by the City in 2007. Phase 1 included 18 acres of active and passive turf areas, a children's playground area, a comfort station, paved pedestrian walkways, parking lots, landscape and irrigation, park furnishings, half-width street improvements for perimeter streets, and costs for demolition required at the park site.

Phase 2 of NTC Park includes the balance of the 46 acre park with similar elements as Phase 1. Phase 2 will have 2 comfort stations and a large children's play area and approximately 28 acres of additional park. The projected operational and maintenance expenses for NTC Park Phase 2 are based on the acreage and the amenities included. The annual maintenance and operation cost associated with Phase 2 is estimated, in FY08 dollars, to be \$361,757. This consists of 3.23 full-time equivalent employees (Grounds Maintenance Worker II at FY 2008 salaries) and \$184,625 in non-personnel expenses.

The operation and maintenance costs for Phase 2 of NTC Park are included in the overall Park and Recreation Department 5-year plan and thus are included in the Mayor's Five Year Financial Outlook for FY 2009 to FY 2013.

FISCAL CONSIDERATIONS:

Estimated expenditures of \$271,300 are required to operate and maintain Phase 2 of NTC Park for nine months in FY2010. This expenditure will be included in the City FY 2010 Proposed Budget. An additional estimated expenditure of \$90,500 for three months of annualized funding will be requested in the City FY 2011 Proposed Budget.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

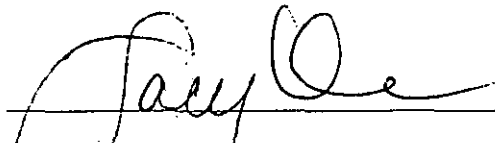
None for NTC Park Phase 2 operations and maintenance expenses.

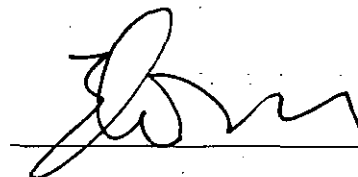
COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

The San Diego Park and Recreation Board will review future City Park and Recreation Department budgets that will include NTC Park Phase 2 maintenance expenditure requests.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

All citizens of San Diego, as intended users of NTC Park, and the San Diego Park and Recreation Board are key stakeholders.



Stacey LoMedico, Director
Park and Recreation Department

Elmer Heap, Deputy Chief Operating Officer
Community Services



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THE CITY OF SAN DIEGO

REPORT TO THE CITY COUNCIL

DATE ISSUED: February 28, 2008 REPORT NO. 08-031

ATTENTION: Council President and City Council
Agenda of March 11, 2008

SUBJECT: Community Facilities District No. 3 (Liberty Station) Special Tax Bonds
Series A of 2008

REFERENCE: Report to City Council No. 06-059, dated May 18, 2006
Memorandum to Mayor and City Council, dated June 27, 2005, "Status
Update on Proposed Issuance of Community Facilities District No. 3 (Liberty
Station) Special Tax Bonds, Series A"
Manager's Report No. 05-112, dated May 11, 2005
Manager's Report No. 02-096 dated April 29, 2002

REQUESTED ACTIONS:

Authorize the issuance of Community Facilities District ("CFD") No. 3 Special Tax Bonds Series A of 2008 (the "2008 CFD Bonds") in a principal amount not to exceed \$4.25 million and the related financing documents to provide the remaining CFD bond funding for eligible district improvements, including Phase 2 of the Regional Park. The related financing documents include a Supplemental Indenture, a Bond Purchase Agreement, a Preliminary Official Statement, and a Continuing Disclosure Certificate. In addition, approve the First Amendment to Purchase and Finance Agreement.

REQUESTED ACTIONS – Approve the requested actions.

SUMMARY:

I. BACKGROUND:

The Mello-Roos Community Facilities Act of 1982 (the "Mello-Roos Act") was enacted by the State to help growing areas finance essential public facilities that typically accompany major development projects. The Mello-Roos Act specifically provides for the establishment of a CFD for the purpose of financing certain public improvements and/or services, and was amended to specifically facilitate military base reuse. The City's Council Policy 800-03, which was in effect at

the time Community Facilities District No. 3 (Liberty Station) ("the District") was formed,¹ allows for utilization of CFDs to finance public facilities required in connection with development.

More particularly, the Disposition and Development Agreement or "DDA" between the Redevelopment Agency of the City ("Agency") and McMillin-NTC, LLC ("McMillin") for the development of the Naval Training Center Redevelopment Project (the "Redevelopment Project") was approved by the City Council and the Agency in June of 2000 and gave McMillin the right to pursue CFD formation. The DDA states that the "Master Developer intends to finance the Development Cost of the Horizontal Improvements with a combination of debt (including, to the extent approved by the City, Community Facilities District bonds as described in paragraph c.(3) of Section 1.08 of this Agreement) and Master Developer's equity." Paragraph c.(3) of Section 1.08 of the DDA further states, the "Master Developer shall have the right to pursue formation of a Community Facilities District or other district in order to finance Horizontal Improvement Development Costs..." The DDA defines Horizontal Improvements as "public improvements and utilities...", which includes road improvements. Also, in the DDA, "Park Improvements" is defined as Horizontal Improvements.

In accordance with the Mello-Roos Act, the Council Policy, and provisions of the DDA, and following public hearings and a special election conducted pursuant to the Mello-Roos Act, the City Council adopted the necessary resolutions to form the District in 2002. In addition, the City Council authorized the levy of special taxes ("Special Taxes") on taxable property interests within the District and the issuance of bonds in an amount not to exceed \$30.0 million, which provides for the acquisition of eligible facilities, the required debt service reserve fund, and costs of formation and issuance.

The District was established to finance certain public facilities (the "Public Facilities") required in connection with McMillin's development of the Redevelopment Project. McMillin's overall fiscal obligation with respect to public improvements required in connection with the Redevelopment Project is currently estimated by McMillin and the Redevelopment Agency to total \$122.8 million. In conformance with the DDA, the maximum amount of facilities to be funded through the District is approximately \$20.8 million.

The Public Facilities that are eligible to be financed through the District, and the terms of acquisition, are described in the Purchase and Finance Agreement (the "Acquisition Agreement") between the City and McMillin. The Acquisition Agreement was approved by City Council in connection with the District formation proceedings in 2002. Following is the list of facilities included in the agreement.

- a. Rosecrans Street and Lytton Street improvements;
- b. improvements to Rosecrans Street and Nimitz Boulevard;
- c. improvements to Harbor Drive at Lee Street;
- d. construction of the 46-acre regional park required of McMillin pursuant to the terms of the DDA and related agreements, including demolition of existing structures; and

¹ On November 6, 2007, the City Council passed a resolution to repeal Council Policy 800-03 and to approve a new Special Districts Formation and Financing Policy, which is included within the City's Debt Policy. The resolution stated that the new Special Districts Formation and Financing Policy would apply only to CFDs and Assessment District formed after the effective date of the resolution. Therefore, in connection with the issuance of the proposed 2008 CFD Bonds, Council Policy 800-03 is still considered operative.

- e. improvements to Laning Road.

The Special Taxes are levied in accordance with the rate and method of apportionments (the RMAs) approved in connection with the District formation proceedings. The Special Tax receipts may be used to pay either debt service on the CFD Bonds, or to directly fund the Public Facilities. At the time the District was formed, it was anticipated that tax-exempt bonds would be issued in two series.

The first series of bonds--Community Facilities District No. 3 (Liberty Station) Special Tax Bonds Series A of 2006 (the "2006 CFD Bonds")--was issued in July 2006. These bonds were privately placed because at that time the City's bond and disclosure counsel for the 2006 CFD Bonds and the City's general disclosure counsel had advised that, although the 2006 CFD Bonds were not obligations of the City, any material adverse information regarding the City's financial condition or any material adverse developments regarding the pending investigations being conducted by various governmental agencies could have a negative impact on the value of the bonds in the secondary market. Counsel further advised that until the City was in a position to provide current financial information to the marketplace and there was information regarding the outcome of the investigations, the CFD Bonds should not be publicly offered. The par amount of the 2006 CFD Bonds totaled \$16.0 million, and provided \$13.3 million in net acquisition proceeds. As more fully described below, the bond proceeds, in addition to certain Special Tax receipts, were used to acquire eligible road improvements and Phase 1 of the Regional Park. Remaining funds will be applied, along with proceeds of the proposed 2008 CFD Bonds, to the acquisition of Phase 2 of the Regional Park.

II. DISCUSSION

A. Proposed Bond Issuance – Public Offering

The Financing Team for the 2008 CFD Bonds is the same as the team for the 2006 CFD Bonds, and includes staff of the Department of Finance, including the Debt Management Department and the City Comptroller's Office, the City Attorney's Office, and outside consultants, including a financial advisor (Fieldman, Rolapp & Associates), a special tax consultant (David Taussig & Associates), bond and disclosure counsel (Stradling, Yocca, Carlson, & Rauth), the underwriters (Stone & Youngberg LLC and EJ De La Rosa & Co.), and the underwriter's counsel (Nossaman, Guthner, Knox & Elliott LLP).

The Financing Team and the City's general disclosure counsel (John McNally, with Hawkins Delafield & Wood LLP) have concluded that the 2008 CFD Bonds could be issued in a public offering due to various milestones reached by the City subsequent to the private placement of the 2006 CFD Bonds. The City has released its audited Comprehensive Annual Financial Reports ("CAFRs") for the fiscal years ended June 30, 2003 and June 30, 2004, and the release of the CAFR for the fiscal year ended June 30, 2005 is imminent (the 2005 CAFR is currently under review by the City's Audit Committee, after which it will be forwarded to the City Council to be reviewed and filed). The Kroll Investigation was completed in August of 2006, and the City entered into a cease-and-desist order with the Securities and Exchange Commission ("SEC") on November 14, 2006. In addition, the CFD Bonds are not fiscal obligations of the City and a City CAFR is not included in the official statement for the initial offering of the bonds. Thus, the Financing Team, including the disclosure counsel for the 2008 CFD Bonds and the City's general disclosure counsel, have

concluded these bonds could be issued as a public offering, with an official statement. This conclusion is based, in part, on the City's representation that all material facts regarding the City's current financial condition and the status of the investigations has been disclosed to counsel and properly described in the Official Statement.

B. Method of Sale - Negotiated

Due to the nature of the security for land secured bonds, such as the 2008 CFD Bonds, and because such bonds are typically non-rated, most land secured bond sales in the State of California utilize a negotiated sale method. CFD bonds are typically non-rated because they are usually not considered investment grade (BBB- or above) due to the fact that the bonds are secured solely by the Special Tax revenues (versus a General Fund pledge of a municipality), and are often issued while development is still occurring.

With a negotiated sale, the underwriter is selected early in the financing process and the terms and price of the bonds are negotiated with the issuer. The underwriter for the District (Stone & Youngberg LLC and EJ De La Rosa & Co., collectively, the "Underwriter") was selected prior to District formation. As a member of the Financing Team, the Underwriter assists with structuring the financing, participates in the review of financing documents and the development of the disclosure documents (the preliminary official statement ["POS"] and the official statement ["OS"]). Also, with input from the City and its Financial Advisor, the Underwriter identifies appropriate investors, pre-markets the bonds, and schedules and conducts the bond sale.

Due to the factors described above (i.e., the nature of the security for the bonds, and the non-rated status of the bonds), it is prudent to use a negotiated sale method for the proposed 2008 CFD Bonds. The negotiated sale method would give the Underwriter adequate time to pre-market the 2008 CFD Bonds to appropriate investors, which should result in lower interest rates than if the bonds were sold on a competitive basis. Land secured bonds are not appropriate investments for all investors. The Underwriter has advised that it has controls in place to ensure that the bonds are purchased by appropriate investors who understand the special risks of land secured bonds such as the 2008 CFD Bonds, and that it will comply with all suitability requirements of the SEC and Municipal Securities Rulemaking Board.

C. Issuance Size

In 2002, City Council approved a \$30 million maximum overall bond authorization for the District to provide for the acquisition of eligible facilities (approximately \$20.8 million), the required debt service reserve fund, and costs of formation and issuance for one or more series of bonds. The actual amount of total bonds expected to be issued is less than \$20.0 million:

District Bond Authorization and Total Expected Issuance Amount

Total District Bond Authorization	\$30,000,000
Bond Issuance Amounts	
2006 CFD Bonds	\$16,000,000
Proposed 2008 CFD Bonds (est.)	<u>\$ 3,950,000</u>
Total Bonds Issued for District (est.)	\$19,950,000

The 2006 CFD Bonds totaled \$16.0 million and provided for certain road improvements, Phase 1 of the Regional Park, and a portion of funding for Phase 2 of the Regional Park. The proposed 2008 CFD Bonds would be considered parity bonds to the 2006 CFD Bonds, which means they would have the same priority with respect to the receipt and application of Special Taxes for repayment of debt service and the bonds would be governed by the indenture executed in connection with the 2006 CFD Bonds (the "Indenture"), as supplemented by the First Supplemental Bond Indenture ("Supplemental Indenture"). The proceeds of the 2008 CFD Bonds would provide for a deposit into the debt service reserve fund ("DSRF") established under the Indenture to increase the DSRF to the new required level resulting from the issuance of the parity bonds, costs to issue the bonds, and proceeds to acquire Phase 2 of the Regional Park. The following table specifies the estimated sources and uses of proceeds of the 2008 CFD Bonds:

Sources and Uses of Bond Proceeds*

Estimated Sources:

Par Amount of 2008 CFD Bonds:	\$ 3,950,000
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Estimated Uses:

Public Facilities/Acquisition Fund	\$3,190,000
Deposit to Debt Service Reserve Fund	280,000
Costs of Issuance**	480,000

TOTAL:	\$3,950,000
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* Preliminary; subject to change.

** Costs of Issuance include legal fees, financial advisor and other consultant fees, Underwriter's discount, staff costs, and other expenses related to the issuance of the bonds.

D. Acquisition Funds

The use of acquisition funds is guided by the DDA and the Acquisition Agreement (such Acquisition Agreement was approved by City Council in 2002 as part of the District formation actions). To date, facilities acquired through the District include improvements to Rosecrans Street and Harbor Drive. In addition, Phase 1 of the Regional Park was completed and acquired by the City in 2007. Phase 1 included 18 acres of active and passive turf areas, a children's playground area, a comfort station, paved pedestrian walkways, parking lots, landscape and irrigation, park furnishings, half-width street improvements for perimeter streets, and costs for demolition required at the Park site. McMillin currently anticipates that Phase 2 of the Regional Park, which includes the balance of the 46 acre park with similar elements as Phase 1 (e.g., passive open turf and naturalized areas, comfort stations, paved pedestrian walkways, landscape and irrigation, park furnishings, benches, picnic tables, and trash receptacles), will be completed 16 months after the issuance of the 2008 CFD Bonds. This estimated completion period would conform to the accelerated time-frame set forth in the First Amendment to the NTC Park Improvement Agreement and would be ahead of the schedule established in the DDA.

Pursuant to the RMAs that were approved in connection with the formation proceedings, the City has levied Special Taxes on developed property within the District, beginning with the Fiscal Year

2004 tax year. Special Tax receipts may be used to pay directly for facilities or to pay debt service on bonds issued to fund facilities. The following table provides specific information on the facilities acquired to date and anticipated to be acquired with the 2006 CFD Bonds, the proposed 2008 CFD Bonds, and Special Tax receipts:

Sources and Uses of Acquisition Funds ⁽¹⁾

<u>Sources of Funds</u>	<u>Amount</u>
FY 2004 Levy – Special Tax-Acquisition Receipts	\$381,024
FY 2005 Levy – Special Tax-Acquisition Receipts	\$951,207
FY 2006 Levy – Special Tax-Acquisition Receipts	\$1,339,732
FYs 2007 & 2008 Levy–Special Tax-Acquisition Receipts (Est.)	\$412,222
2006 CFD Bonds (Deposit to Acquisition Fund)	\$13,278,429
Interest Earnings on 2006 CFD Bonds (Est.)	\$761,816
2008 CFD Bonds (Deposit to Acquisition Fund) (Est.)	\$3,188,644
Total	\$20,313,074 ⁽¹⁾
 <u>Uses of Funds</u>	
Rosecrans/Lytton Street Improvements (Actual)	\$5,101,770 ⁽²⁾
Harbor Drive Street Improvements (Actual)	\$888,411 ⁽²⁾
Regional Park- Phase 1 (Actual)	\$8,736,504 ⁽³⁾
Regional Park - Phase 2 - Remaining Balance (Est.)	\$5,576,570 ⁽³⁾
Remaining Road Improvements (Est.)	\$9,819 ⁽²⁾
Total	\$20,313,074 ⁽¹⁾

- (1) The DDA cap for facilities to be provided through the District is approximately \$20.8 million; however, \$466,726 of this amount represents a contribution to an aquatic center and has not been included in the table, or in the proposed 2008 CFD Bond issuance. (also see footnote 3).
- (2) Pursuant to the DDA, the cap for CFD funding for road improvements is \$6,000,000.
- (3) Pursuant to the DDA, the cap for CFD funding for the Regional Park Improvement is \$14,779,800. However, as a result of City Council action in 2003 in connection with the General Development Plan for the NTC Park, Phase 2 of the Regional Park includes \$466,726 in funding for the aquatic center contemplated in the General Development Plan for the NTC Park. The Park and Recreation Department estimates that the total cost of the aquatic center would be approximately \$13 million and no other funding for construction of the project has been identified. As such, this element of the Regional Park is not included in the proposed bond issuance. However, because the \$466,726 contribution is an eligible expense of the District, the City may elect to utilize Special Tax levy receipts, if available, to provide for this contribution in the future if the remaining funding for construction of the aquatic center is identified.

Operations and Maintenance Costs – Phase 2 of Park

In connection with this item, the Park and Recreation Department is issuing a separate Report to City Council outlining the estimated operations and maintenance costs associated with Phase 2 of the Regional Park. McMillin expects to complete Phase 2 within 16 months of the proposed bond sale, and thus the Park should be operational in early Fiscal Year 2010.

E. Repayment of the Bonds – Special Taxes

Debt service on the 2008 CFD Bonds would be payable with Special Taxes levied on taxable property interests within the District over the term of the bonds, in accordance with the RMA's approved by the City Council in 2002. The bonds are not general or special obligations of the City, and are not backed by the faith, credit, nor the taxing power of the City. The 2008 CFD Bonds are special limited obligations of the District payable solely from Special Taxes collected from owners of taxable property interests within the District.

Under the existing Indenture, when the parity bonds (the 2008 CFD Bonds) are issued, the Special Taxes that may be levied in each Fiscal Year must not be less than 110% of the combined debt service for the 2006 and 2008 CFD Bonds. Debt service coverage of approximately 126% is currently estimated, based on the development status of the land within the District as of January 2, 2008.

If there is a shortfall in the amount of Special Taxes available to make a debt service payment, monies would be withdrawn by the Trustee from the DSRF. The DSRF is established when the bonds are issued and is generally sized in an amount equivalent to the maximum annual debt service on the bonds. In this case, because the 2008 CFD Bonds are parity bonds to the 2006 CFD Bonds, there will be a deposit into the existing DSRF to increase the reserve to the new required level based on the incremental debt service resulting from the issuance of the 2008 CFD Bonds. In addition, the District has provided a covenant in the Indenture wherein it would diligently pursue foreclosure on property delinquent in the payment of Special Taxes if certain delinquency thresholds are reached.

The RMAs specify that Special Taxes will be levied at the Assigned Special Tax Rate (the "Assigned Rate") set forth in the RMA's until: (1) all authorized bonds of the District have been issued (\$30 million) or the City Council has covenanted that no additional bonds will be issued (other than refunding bonds), and (2) all facilities eligible for reimbursement have been acquired. Once the proposed 2008 CFD Bonds are issued, sufficient funds would be available to acquire eligible facilities included in the Acquisition Agreement up to the maximum amounts contemplated in the DDA. As such, the Financing Resolution includes a City Council declaration that no more bonds will be issued in connection with the District other than refunding bonds. This could benefit the Special Taxpayers in the District because it would enable the City to levy Special Taxes at less than the Assigned Rate if the revenues generated would be sufficient to make principal and interest payments on the bonds, replenish shortfalls, if any, in the DSRF, and pay administrative costs of the District.

Amendment to Acquisition Agreement

To facilitate the possibility of levying Special Taxes at less than the Assigned Rate as early as possible, a companion resolution has been prepared that would authorize an amendment to the Acquisition Agreement (the First Amendment to Purchase and Finance Agreement). The amendment provides that Phase 2 of the Regional Park would have the highest priority of the facilities that have not yet been acquired, and provides that once the DDA caps are reached with respect to CFD funding for eligible facilities, all facilities shall be deemed to have been acquired for purposes of the RMAs, at which point the RMA condition for levying less than the Assigned Rate only after all facilities have been acquired would be met. (See Sources and Uses of Acquisition Funds table, above, for list of facilities that have been, or will be, acquired.)

F. Value to Lien Ratio

When forming the District, the City required a 4 to 1 value-to-lien ratio for property within the District subject to the Special Tax. This ratio is higher than the minimum ratio (3 to 1) required by the Mello-Roos Act and the Council Policy in effect at the time the District was formed. The value-to-lien ratio is an important factor in evaluating the credit-worthiness of a land secured transaction. It represents the value of the property upon which Special Taxes are levied within the District as compared to the amount of bonds outstanding supported by the Special Taxes, and any other special taxes or assessments levied on the property. Requiring a higher value-to-lien ratio reduces the risk that a property owner would become unwilling to pay the Special Taxes when due, and increases the likelihood that if foreclosure proceedings became necessary due to a delinquency in the payment of Special Taxes, the proceedings would result in sufficient proceeds to recover the delinquent taxes. Due to the fact that these bonds are being issued at a time when significant portions of the District have already been developed and sold to end users (e.g., residential homeowners), the estimated assessed value-to-lien ratio for these bonds, based on development status of January 2, 2008, is approximately 15 to 1.

G. Pricing of the 2008 CFD Bonds

Under market conditions as of January 9, 2008, the estimated True Interest Cost ("TIC") and average coupon rate on the 2008 CFD Bonds are approximately 6.95% and 5.73%, respectively; the estimated annual debt service payment would be approximately \$282,000. (The maximum TIC established in the financing resolution is 7.75%. It is not currently expected that the actual pricing will result in a TIC of 7.75%, however, should that occur, the annual debt service payment would be approximately \$306,000.) The TIC is a measure of the interest cost of an issue that accounts for the interest rates on the bonds, the time value of money, and the costs of issuance. It is distinguished from the coupon rate that is paid to the bondholders. The estimated TIC for the 2008 CFD Bonds is relatively high due to the small size of the issuance. Certain costs of issuance are generally fixed regardless of the size of the bonds, and therefore have a more significant impact to the overall cost of financing for a smaller issuance, as reflected in the TIC. The term of the bonds is 28 years (the final maturity on the 2008 CFD Bonds would be 2036, which is the same as the maturity on the 2006 CFD Bonds).

Land based securities, such as the 2008 CFD Bonds, are usually not rated and are generally considered more risky than securities backed by a governmental entity such as the City. As a result, they command a higher rate of interest than rated bonds that are obligations of a governmental entity. The estimated pricing is based on market conditions for non-rated land secured financings in the State as of January 9, 2008. This particular bond market segment has experienced widening credit spreads relative to more highly rated municipal bonds as well as volatile investor demand in the third and fourth quarters of 2007, due to concerns about the real estate market and the sub-prime mortgage issue. Conditions that exist at the time of the bond sale may be different. The actual pricing will be determined at the time of the sale, and will be dependent upon market conditions that exist at that time.

H. The Financing Team

The Underwriter was selected through a competitive process. A Request for Proposals ("RFP") was issued in April of 2001 to solicit proposals from underwriters for the negotiated sale of bonds issued

by the District in one or more series. The outcome of this process was to select Stone & Youngberg LLC as the senior managing underwriter and EJ De La Rosa & Co. as co-manager based on the firms' qualifications. This same team underwrote the 2006 CFD Bonds.

Pursuant to Council Policy 900-09, Stone & Youngberg has submitted information relating to Community Reinvestment Activities ("CRA"). It is understood that Stone & Youngberg is not a commercial bank and is not subject to the CRA provisions. However, Stone & Youngberg has voluntarily provided information on its community activities at the City's request. This information is provided under Attachment 1.

The Financial Advisor (Fieldman, Rolapp & Associates), Special Tax Consultant (David Taussig & Associates), and Bond and Disclosure Counsel (Stradling, Yocca, Carlson and Rauth) were also selected prior to the 2002 formation of the District. The City Council passed an Ordinance on September 4, 2007 approving contracts for these consultants to perform services related to the issuance of the 2008 CFD Bonds.

I. The Financing Documents

The financing documents that the City Council would approve through the proposed actions include the forms of Supplemental Indenture, a Bond Purchase Agreement, a Continuing Disclosure Certificate, and a POS.

- a. Financing Resolution – The Financing Resolution authorizes the issuance of the 2008 CFD Bonds, provides for the approval of the financing documents (described below), and delegates to the Mayor and his designees authority to take actions to issue the 2008 CFD Bonds.
- b. The Supplemental Indenture – The First Supplemental Bond Indenture ("Supplemental Indenture") is an agreement between the District and the existing Trustee for the District, Wells Fargo Bank, N.A. to supplement the existing Indenture. The Supplemental Indenture outlines the District's and the Trustee's responsibilities and obligations and the rights of the bondholders with respect to the 2008 CFD Bonds, and pledges Special Taxes levied within the District to repay the bonds.

The Supplemental Indenture includes information regarding the amount of the bonds, maturities and interest rates on the bonds, and the nature of the bonds (i.e., that the bonds are not obligations of the City, and are limited obligations of the District). The Indenture, as supplemented by the Supplemental Indenture, provides that the Trustee will establish and maintain certain funds, accounts, and sub-accounts, specifies how any funds (e.g., DSRF monies) are to be invested, and how the DSRF is to be utilized. It also specifies the covenants of the District including that it will: cause the principal and interest on the bonds to be paid punctually to the extent Special Tax receipts are available; levy Special Taxes sufficient to pay principal and interest on the bonds up to the maximum rate prescribed by the RMA's; and commence foreclosure proceedings against any delinquent parcel if certain delinquency thresholds are reached.

The Supplemental Indenture also specifically waives certain provisions in the Indenture pertaining to resale restrictions on the 2006 CFD Bonds. These provisions were established

in connection with the private placement structure of the 2006 CFD Bonds and limited the number of investors who could hold the bonds and the minimum denominations of such bonds, and required execution of an Investor Letter upon resale, which, among other things, required investors to acknowledge that there was no District disclosure document. The underwriters have advised the City that a waiver of the transfer restrictions will be viewed positively by the current investors and will promote positive relations between the City and the investors who are potential purchasers of debt issued by the City or its subordinate entities in the future. Due to the conclusion that current circumstances permit the 2008 CFD Bonds to be issued as a public offering and the fact that a POS will be provided in connection with such bonds, it is reasonable for the District to waive the re-sale restrictions for the 2006 CFD Bonds, and such waiver has been incorporated into the Supplemental Indenture. The District is not obligated to waive the provisions, however, and that decision remains in the sole discretion of the District. The City Attorney, bond counsel, and the City's general disclosure counsel have recommended that if the District elects to waive the transfer restrictions then the existing owners of the 2006 CFD Bonds should be required to agree with the District that as a condition of the first transfer of the 2006 CFD Bonds they will deliver to the purchasers a copy of the most recent disclosure document available for the District. Accordingly, this requirement has been incorporated into the Supplemental Indenture.

- c. The Bond Purchase Agreement – The Bond Purchase Agreement is an agreement between the District and the Underwriter, pursuant to which the District agrees to sell, and the Underwriter agrees to buy, the 2008 CFD Bonds. It specifies the purchase price for the bonds, and certain terms of the bonds, such as interest rates and maturities. In addition, it specifies the circumstances under which the Underwriter may cancel its obligation to purchase the issue, such as changes in the tax treatment of the bonds, and other events (e.g., a national or international crisis that impacts the national financial markets) that would make it substantially more difficult for the Underwriter to place the bonds with investors.

The agreement also specifies documents that the Underwriter and the District must receive prior to the closing of the bond offering. These documents include the Bond Counsel opinion regarding the validity of the 2008 CFD Bonds and the Supplemental Indenture, and an opinion on the tax exempt nature of the bond. Also, certain opinions and certificates of the City Attorney and other City and District officials are required. Such opinions and certificates, among other things, would confirm that all the steps necessary to authorize the execution of the financing documents and the issuance of the bonds have been properly taken.

- d. The Preliminary Official Statement (POS) – The POS describes the bond issue to the marketplace. It provides information that a reasonable investor in these types of securities would need to make an informed investment decision. Specifically, the POS for the 2008 CFD Bonds includes information about the bonds, sources of repayment of the bonds, the District, and the development and property ownership.

The POS also includes information on risk factors. Land based securities are generally considered more risky than securities backed by a governmental entity such as the City. For example, a downturn in the economy or a natural disaster could result in a reduction in property values and could adversely affect the ability or willingness of property owners to

pay the Special Taxes, which are the security for repayment of the bonds. The risk factors section of the POS provides a discussion of certain risk factors that should be considered by potential investors in the 2008 CFD Bonds.

Appendices to the POS include: copies of the previously authorized RMAs (Appendix A); supplemental economic information relating to the City (Appendix B); a summary of the Indenture (Appendix C); the Continuing Disclosure Certificate of the District (Appendix D); the Continuing Disclosure Agreement of the Developer (Appendix E); the form of Bond Counsel Opinion (Appendix F); information concerning the Depository Trust Company's book entry only system (Appendix G); and a copy of the report prepared by Empire Economics, Inc. on Recent Housing Price Trends/Patterns and Mortgage Loan Characteristics – CFD No. 3 (Appendix H). City CAFRs are not included in the POS. Since the bonds would not be repaid using any City revenues, it would not be necessary or appropriate to provide City CAFRs.

- e. The Continuing Disclosure Certificate – The Continuing Disclosure Certificate (the “CDC”) is included in the POS, and is a commitment by the District to submit certain information related to the bonds and the District annually to the national information repositories. Such information includes the balance in each fund held by the trustee, including the DSRF, and an annual update of the special tax delinquency table provided in the POS. In addition, although a City CAFR is not required or expected for the initial offering and is therefore not included with the POS, SEC rules do require a City CAFR to be filed annually with the bond and District information. The first annual report for the District would be due April 1, 2009.

J. Schedule

The Disclosure Practices Working Group reviewed the proposed financing and the POS on February 19, 2008 and February 20, 2008. Should the City Council approve the Financing Resolution and related financing documents for the 2008 CFD Bonds, it is anticipated that the bonds would be sold the week of March 24, 2008. The bond closing (receipt of bond proceeds) would occur the week of April 7, 2008.

III. ALTERNATIVES:

Do not approve the resolution to initiate the sale and delivery of 2008 CFD Bonds. If the issuance of the bonds is not approved, McMillin has indicated that it could not accelerate the time-frame set forth in the DDA for completion of Phase 2 of the Park. The DDA time-frame is significantly longer than the period established in the First Amendment to NTC Park Agreement (16 months after the issuance of the bonds).

IV. FISCAL CONSIDERATIONS:

There is no fiscal impact to the City. In accordance with Council Policy 800-03, all costs related to the 2008 CFD Bonds have been funded by McMillin and/or will be reimbursed with bond proceeds. The costs related to issuing and paying debt service on the bonds will ultimately be borne by property owners within the District, via the collection of the Special Taxes.

V. PREVIOUS CITY COUNCIL ACTIONS:

The City Council previously approved actions relating to the formation of the District and the 2006 CFD Bonds. These actions include the adoption of resolutions stating the City Council's intent to establish the District, to authorize the levy of Special Taxes, and to have the District incur bonded indebtedness (Resolution Nos. R-296472 and R-296473, adopted May 7, 2002). On June 25, 2002, elections and a public hearing occurred and the City Council adopted resolutions and an Ordinance to form the District, authorize the levy of Special Taxes, and to have the District incur bonded indebtedness (Resolution Nos. R-296710, R-296742, R-296743, Ordinance No. O-19078). On April 5, 2005, the City Council took action directing the City Manager, the City Attorney, and the remainder of the Financing Team to bring back the financing documents for a first series of bonds to the City Council by May 17, 2005. On May 24, 2005, following the City Council's deferral of the financing item from the May 17, 2005 City Council Meeting agenda, the City Council authorized the issuance of the 2006 CFD Bonds (Resolution No. R-300482).

VI. COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

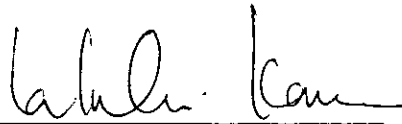
There were no community participation or outreach efforts for this item.

VII. KEY STAKEHOLDERS AND PROJECTED IMPACTS:

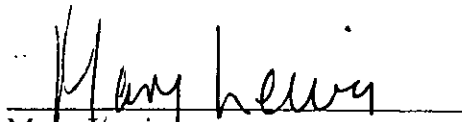
Key stakeholders include McMillin and the Agency; it is understood that the issuance of the bonds would implement an element of the DDA between these two parties. Other stakeholders include the special taxpayers in CFD No. 3.

Business entities involved in the transaction are: Stone & Youngberg LLC and EJ De La Rosa & Co. (the Underwriter); Nossaman, Guthner, Knox & Elliott LLP (Underwriter's counsel); Stradling, Yocca, Carlson and Rauth (bond and disclosure counsel for the transaction); Fieldman, Rolapp & Associates (financial advisor); David Taussig & Associates (Special Tax Consultant); Wells Fargo Bank, N.A. (Trustee); and Empire Economics, Inc. (Price Trends and Mortgage Study Consultant).

Respectfully submitted,



Lakshmi Kommi
Debt Management Director



Mary Lewis
Chief Financial Officer

Attachment: Community Reinvestment Act Information provide by Stone & Youngberg LLC



STONE &
YOUNGBERG

4350 La Jolla Village Drive, Suite 140, San Diego, California 92122 • (858) 795-8700

January 18, 2008

Ms. Elizabeth Kelly
City of San Diego
Financing Services/Special Districts Administration
202 C Street, MS 7B
San Diego, CA 92101-3867

Re: Community Reinvestment Act (CRA) Info Request

Dear Elizabeth:

Thank you for inquiring about Stone & Youngberg's activities supportive of City Council Policy 900-009 regarding Community Reinvestment. We compliment the City on its policy of encouraging financial institutions conducting business within the City to develop and implement a community reinvestment program consistent with the Community Reinvestment Act of 1977.

Since Stone & Youngberg's assets are presently less than \$250 million, the City's guidelines do not require us to submit information regarding the firm's reinvestment program. However, Stone & Youngberg is very proud of its role in the San Diego community and we are pleased to summarize below certain of our commitments to community reinvestment, charitable giving and support of local and area educational, cultural and service organizations.

For over 40 years, Stone & Youngberg has been a part of the San Diego business community as underwriters and distributors of municipal bonds. We have a staff of 6 people in the firm's San Diego office who are active in public and real estate finance. Others in our total staff of 20 sell federal agency and other fixed income products to municipalities for the investment of public funds and a broad range of investment securities to individual investors throughout the County. We are very proud of our service to local governmental agencies and our ongoing commitment to meet both the borrowing and investment needs of San Diego and other cities in the area.

Stone & Youngberg's real estate investment affiliate, S&Y Capital Group LLC, has formed a joint venture with a local real estate developer to redevelop certain parcels along Imperial Avenue in Southeast San Diego. Toward that goal, Imperial Avenue Partners LLC has entered into an Exclusive Negotiating Agreement with SEDC that may enable this Stone & Youngberg affiliate to invest millions of dollars in a series of mixed-used and transient-oriented developments along Imperial Avenue between 61st and 67th Streets. We are currently meeting with SEDC with the goal of a 2008 acquisition of the first parcel for the proposed development of approximately 25 to 30 homes, including 5 affordable units, plus some adjacent retail space. As with many other real estate ventures, there are likely to be changes in the proposed project list shown on the following page and there can be no assurance as to if or when any of these projects will actually be undertaken or completed.

Proposed 61st thru 65th Street on Imperial Avenue Projects					
	<u>65th Street Block</u>	<u>61st Street Block</u>	<u>62nd Street Block</u>	<u>63rd Street Block</u>	<u>64th Street Block</u>
Estimated Size	1.5 acres	3 acres	3 acres		
Est. Total Units	30 units	80-100 units	80-100 units		
Est. Total Affordable Housing Units	5 units	15% of units	15% of units		Prelim. planning stage
Estimated Budget	\$13 mm	\$30 mm	\$30 mm		

For many years, recipients of an annual financial contribution in support of local community service programs have included the United Way/CHAD Campaign and the Episcopal Community Services "Excellence in the Community" outreach programs that serve San Diego's homeless and mentally ill. We annually support the Ken Lee Memorial Golf Classic benefiting the South Bay's graduating seniors scholarship program, the developmentally disabled sports program and breast cancer research. And Stone & Youngberg has been a major sponsor of the Arturo Barrios 5K & 10K Invitational benefiting educational charities in the South Bay with an emphasis on the Hispanic community.

In further support of educational programs and services, we have donated funds and participated in local events that directly benefit educational foundations in all areas of the County such as Coronado Schools, Poway and Del Mar Educational Foundations and the San Diego Unified School District. Please refer to Exhibit A for a list of our recent contributions.

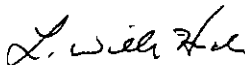
As the senior managing underwriter of the CCDC/Redevelopment Agency's bond issues for three years, we were excited to become founding members of Petco Park in 2004 and Premier Club season ticket holders the past four years.

Many of our San Diego staff are active in their communities. As just one example, the undersigned is presently on the Board of Directors of Coronado First Bank, serves on the Coronado Tunnel Commission and has prior service on the boards of Lamb's Players Theatre and Coronado Main Street.

Stone & Youngberg is also proud of our participation in national policy-setting groups in our industry. Our President, Ken Williams, recently concluded service as Vice Chairman of the Municipal Securities Rulemaking Board. Ken follows three other Stone & Youngberg partners—including his father—as either Chair or Vice-Chair of the MSRB over the last 25 years.

As the San Diego office of Stone & Youngberg grows in both professional staff and services, so will our commitment to voluntary giving and reinvestment in the San Diego community in which we work and live.

Sincerely,



L. William Huck
Managing Director

Encl.

Exhibit A

Date	Organization	Donation
12/07	SD Building Industry Assn Cares Holiday Bike Drive	\$150
10/07	Coronado Golf Course 50 th Anniversary Celebration	\$2,500
8/07*	Coronado Schools Foundation "Celebrate Children"	\$1,750 (varies)
7/07*	Mayor's Cup Challenge: Ken Lee Memorial Golf Classic, Chula Vista: scholarships opportunity to youth of Chula Vista, Sweetwater District's developmentally challenged sports program, and contributions to Jonsson Cancer Center for breast cancer research	\$5,000 (varies)
2004- 2006	United Way-Chad	\$2,000
2004- 2006	Episcopal Community Services	\$1,500
4/06	National Assn of Women in Construction San Diego Chapter 21	\$500
10/05	Chula Vista Rotary Foundation Wine Taste Event	\$2,500
9/05	San Diego Division of League of CA Cities quarterly dinner hosted by City of Coronado	\$2,000
2001- 2005	Arturo Barios 5K & 10K Invitational benefiting educational charities in the So. Bay with an emphasis on the Hispanic Community	\$10,000 ea
7/04	St. Paul's Sr. Homes & Services PACE Program	\$275
7/04	Chula Vista Rotary – Eradicate Polio	\$5,000
5/04	La Jolla Golden Rotary Club—Cheers For Charity	\$500
4/04	South Bay Family YMCA – Annual Campaign	\$1,000
2004	Coronado Optimist Club	\$150

*Annual donation

Annual:

Assn of CA School Administrators (ACSA)
 California City Management Foundation (& Golf)
 CA Society of Municipal Finance Officers (CSMFO)
 CA Redevelopment Assn (CRA)
 CA Association of School Business Officials (CASBO) – Golfing for Scholarships 11/07 - \$600
 CA School Boards Association (CSBA)
 League of California Cities
 Municipal Management Association of Southern CA (MMASC)
 Municipal Management Association of Northern CA (MMANC)
 California Municipal Treasurer's Association (CMTA)

DOCKET SUPPORTING INFORMATION
CITY OF SAN DIEGO**EQUAL OPPORTUNITY CONTRACTING PROGRAM EVALUATION**

DATE:

February 14, 2008

SUBJECT: Community Facilities District No. 3 (Liberty Station) Special Tax Bond Series A of 2008

GENERAL CONTRACT INFORMATION

Recommended Contractor: Not Applicable

Amount of this Action: No Fiscal Impact to the City. All costs related to the 2008 CFD Bonds have been funded by McMillan and/or will be reimbursed with bond proceeds.

SUBCONTRACTOR PARTICIPATION

There is no subconsultant activity associated with this action.

EQUAL EMPLOYMENT OPPORTUNITY COMPLIANCE

Equal Opportunity Required

ADDITIONAL COMMENTS

This action will authorize the issuance of and sale of Community Facilities District No. 3 Special Tax Bonds Series A in a principal amount no to exceed \$4,250,000.00.

JLR

000835

333
03/11

REQUEST FOR COUNCIL ACTION CITY OF SAN DIEGO				1. CERTIFICATE NUMBER (FOR AUDITOR'S USE ONLY) <div style="text-align: center;">N/A</div>			
TO: CITY ATTORNEY		2. FROM (ORIGINATING DEPARTMENT): DEPARTMENT OF FINANCE/DEBT MANAGEMENT		3. DATE: February 6, 2008			
4. SUBJECT: COMMUNITY FACILITIES DISTRICT NO. 3 (LIBERTY STATION) SPECIAL TAX BONDS SERIES A OF 2008							
5. PRIMARY CONTACT (NAME, PHONE & MAIL STA.): Elizabeth Kelly, 236-6932 MS 7B			6. SECONDARY CONTACT (NAME, PHONE & MAIL STA.): Alex Bragado, 533-6477 MS 7B		7. CHECK BOX IF REPORT TO COUNCIL IS ATTACHED <input checked="" type="checkbox"/>		
8. COMPLETE FOR ACCOUNTING PURPOSES							
FUND				9. ADDITIONAL INFORMATION / ESTIMATED COST: See Executive Summary Attached			
DEPT.							
ORGANIZATION							
OBJECT ACCOUNT							
JOB ORDER							
C.I.P. NUMBER							
AMOUNT							
10. ROUTING AND APPROVALS							
ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED	ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED
1	ORIGINATING DEPARTMENT	<i>[Signature]</i>	2/7/08	8	CITY ATTORNEY	<i>[Signature]</i>	2/26/08
2	DSD/EAS	<i>[Signature]</i>	2/10/08	9	ORIGINATING DEPARTMENT	<i>[Signature]</i>	2/24/08
3	EOC	<i>[Signature]</i>	2/14/08	10			
4	LIAISON OFFICE	<i>[Signature]</i>	2/22/08	11			
5	FINANCIAL MANAGEMENT	<i>[Signature]</i>	2/19/08	DOCKET COORD: <i>[Signature]</i> COUNCIL LIAISON: _____			
6	AUDITOR	<i>[Signature]</i>	2/19/08	COUNCIL PRESIDENT <input type="checkbox"/> SPOB <input type="checkbox"/> CONSENT <input checked="" type="checkbox"/> ADOPTION			
7	CFO	<i>[Signature]</i>	2/25/08	COUNCIL DATE: 3/11/08			
11. PREPARATION OF: <input checked="" type="checkbox"/> RESOLUTION(S) <input type="checkbox"/> ORDINANCE(S) <input checked="" type="checkbox"/> AGREEMENT(S) <input type="checkbox"/> DEED(S)							
(1) Authorize the issuance of and sale of Community Facilities District ("CFD") No. 3 Special Tax Bonds Series A of 2008 in a principal amount not to exceed \$4.25 million, and (2) Approve the form of and authorize the execution and delivery of: (a) a Supplemental Indenture; (b) a Purchase Agreement; (c) a Preliminary Official Statement; (d) and Continuing Disclosure Certificate, and (3) Approve the First Amendment to Purchase and Finance Agreement.							
11A. STAFF RECOMMENDATIONS: Approve the Requested Actions.							
12. SPECIAL CONDITIONS:							
<u>COUNCIL DISTRICT(S):</u>		District 2					
<u>COMMUNITY AREA(S):</u>		Peninsula Community Planning Area.					
<u>ENVIRONMENTAL IMPACT:</u>		This activity is exempt from CEQA pursuant to State CEQA Guidelines, Section 15061(b)(3).					
<u>HOUSING IMPACT:</u>		None					
<u>OTHER ISSUES:</u>		Per the Report of the Audit Committee of the City of San Diego, dated August 8, 2006, and in accordance with Kroll's remediation recommendation therein, the financing documents must be distributed to the City Council at least 2 weeks prior to the City Council meeting date, to allow for sufficient review time.					

EXECUTIVE SUMMARY SHEET

DATE REPORT ISSUED: REPORT NO:
ATTENTION: Council President and City Council
ORIGINATING DEPARTMENT: Department of Finance - Debt Management
SUBJECT: Community Facilities District No. 3 (Liberty Station) Special Tax Bonds Series A of 2008
COUNCIL DISTRICT(S): 2
STAFF CONTACT: Elizabeth Kelly (619-236-6932)/Alex Bragado (619-533-6477)

REQUESTED ACTION:

Authorize the issuance of Community Facilities District No. 3 ("CFD No. 3") Special Tax Bonds Series A of 2008 (the "2008 CFD Bonds") in a principal amount not to exceed \$4.25 million to provide the remaining CFD bond funding for eligible district improvements, including Phase 2 of the Regional Park, and authorize the related financing documents, including a Supplemental Indenture, a Purchase Agreement, a Preliminary Official Statement, and a Continuing Disclosure Certificate. In addition, approve the First Amendment to the Purchase and Finance Agreement.

STAFF RECOMMENDATION:

Approve the requested actions.

EXECUTIVE SUMMARY: (ALSO SEE FULL STAFF REPORT)

CFD No. 3 was formed in 2002 in connection with the Naval Training Center ("NTC") Redevelopment Project. Specifically, in accordance with the Mello-Roos Community Facilities Act of 1982, Council Policy 800-03, and the provisions of the Disposition and Development Agreement (the "DDA") between the Redevelopment Agency of the City and McMillin-NTC, LLC ("McMillin") and following public hearings and a special election conducted pursuant to the Mello-Roos Act, the City Council adopted the necessary resolutions to form CFD No. 3. The City Council also authorized the levy of special taxes on taxable property interests within the District and the issuance of bonds in an amount not to exceed \$30.0 million to provide for the acquisition of eligible facilities, the required debt service reserve fund, and costs of formation and issuance.

The DDA gave McMillin the right to pursue formation of a CFD to finance a portion of the public improvements McMillin is responsible for under the DDA, including certain road improvements and the Regional Park improvement (the "Eligible Public Facilities"). The costs associated with the improvements to be financed through CFD No. 3 are limited to approximately \$20.8 million as specified in the DDA.

In July 2006, a first series of bonds (the "2006 CFD Bonds") was issued. The 2006 CFD Bond proceeds as well as special taxes collected within CFD No. 3 that have been used to directly fund the Eligible Public Facilities have provided funding for all but a very small portion of the road improvements, Phase 1 of the Regional Park, and a portion of the funding for Phase 2 of the Regional Park. The remaining CFD funding relating to Phase 2 of the Regional Park will be provided through the proposed 2008 CFD Bond issuance.

As more fully described in the full staff report for this item, the Financing Team, the disclosure counsel for the 2008 CFD Bonds, and the City's general disclosure counsel have concluded these bonds could be issued as a public offering, with an official statement. The estimated bond size is \$3.95 million, which provides for the acquisition of facilities, a deposit into the debt service reserve fund, and costs of issuance. McMillin currently anticipates that Phase 2 of the Regional Park will be completed 16 months after the issuance of the 2008 CFD Bonds. This estimated completion period would conform to the accelerated time-frame set forth in the First Amendment to the NTC Park Improvement Agreement and would be ahead of the schedule established in the DDA.

The bonds would be issued utilizing a negotiated sale method. Due to the nature of the security of land secured bonds, such as the 2008 CFD Bonds, and because such bonds are typically non-rated, most land secured bond sales in the State of California utilize a negotiated sale method. Debt service on the 2008 CFD Bonds would be paid from Special Taxes levied on taxable property interests within the District. The bonds are not general or special obligations of the City, and are not backed by the faith, credit, nor the taxing power of the City. The 2008 CFD

Bonds are special limited obligations of the District payable solely from Special Taxes collected from owners of taxable property interests within the District.

Under market conditions as of January 9, 2008, the estimated True Interest Cost ("TIC") and average coupon rate on the 2008 CFD Bonds are approximately 6.95% and 5.73%, respectively; the estimated annual debt service payment would be approximately \$282,000. The TIC is a measure of the interest cost of an issue that accounts for both the interest rates on the bonds, and the time value of money and costs of issuance relating to the bonds. It is distinguished from the coupon rate that is paid to the bondholders. The estimated TIC for the 2008 CFD Bonds is relatively high due to the small size of the issuance. Certain costs of issuance are generally fixed regardless of the size of the bonds, and therefore have a more significant impact to the overall cost of financing for a smaller issuance, as reflected in the TIC. The term of the bonds is 28 years (the final maturity on the 2008 CFD Bonds would be 2036, which is the same as the maturity on the 2006 CFD Bonds).

The estimated pricing is based on market conditions for non-rated land secured financings in the State as of January 9, 2008. This particular bond market segment experienced widening credit spreads relative to more highly rated municipal bonds and volatile investor demand in the third and fourth quarters of 2007, due to concerns related to the real estate market and the sub-prime mortgage issue. It is possible market conditions at the time of the bond sale may be different. The actual rate will be determined at the time of the sale, and will be dependent upon market conditions that exist at that time.

The financing documents that the City Council would approve include the forms of Supplemental Indenture, a Bond Purchase Agreement, a Continuing Disclosure Certificate, and a Preliminary Official Statement. The Disclosure Practices Working Group reviewed the proposed financing and the disclosure document on February 19, 2008 and February 20, 2008. Should the City Council approve the Financing Resolution and related financing documents for the 2008 CFD Bonds, it is anticipated that the bonds would be sold the week of March 24. The bond closing (receipt of bond proceeds) would occur the week of April 7.

FISCAL CONSIDERATIONS:

There is no fiscal impact to the City. All costs related to the 2008 CFD Bonds have been funded by McMillin and/or will be reimbursed with bond proceeds. The costs related to issuing and paying debt service on the bonds will ultimately be borne by property owners within the District, via the collection of Special Taxes.

PREVIOUS COUNCIL COMMITTEE ACTION:

Previous Council actions include resolutions stating the City Council's intent to establish the District, authorize the levy of Special Taxes, and to have the District incur bonded indebtedness (Resolution Nos. R-296472 and R-296473, adopted May 7, 2002). On June 25, 2002, elections and a public hearing occurred and resolutions and an Ordinance were adopted to form the District, authorize the levy of Special Taxes, and to have the District incur bonded indebtedness (Resolution Nos. R-296710, R-296742, R-296743, Ordinance No. O-19078). On April 5, 2005, the City Council directed the City Manager, the City Attorney, and the Financing Team to bring the financing documents for a first series of bonds to City Council by May 17, 2005. On May 24, 2005, following deferral of the item from the May 17, 2005 City Council Meeting agenda, City Council authorized the issuance of the 2006 CFD Bonds (Resolution No. R-300482).

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

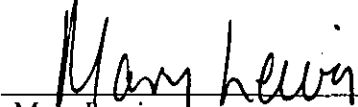
There were no community participation or outreach efforts.

KEY STAKEHOLDERS & PROJECTED IMPACTS (if applicable):

Key stakeholders include McMillin, the Redevelopment Agency, and the special taxpayers in CFD No. 3. Business entities involved in the transaction are: Stone & Youngberg LLC and EJ De La Rosa & Co. (the underwriters); Nossaman, Guthner, Knox & Elliott LLP (underwriter's counsel); Stradling, Yocca, Carlson and Rauth (bond and disclosure counsel); Fieldman, Rolapp & Associates (financial advisor); David Taussig & Associates (Special Tax Consultant); Wells Fargo Bank, N.A. (Trustee); Empire Economics, Inc. (Price Trends and Mortgage Study Consultant).



Lakshmi Kommi
Debt Management Director



Mary Lewis
Chief Financial Officer

RESOLUTION OF ISSUANCE**Log of Outstanding Items as of February 25, 2008**

<i>Page</i>	<i>Outstanding Items</i>	<i>Responsible Party</i>	<i>Expected Availability</i>
2	City Clerk Document Nos.	City	When Resolution is Adopted
8	Date and Signature	City	When Resolution is Adopted

**RESOLUTION AUTHORIZING
FIRST AMENDMENT TO PURCHASE AND FINANCE AGREEMENT**

Log of Outstanding Items as of February 25, 2008

<i>Page</i>	<i>Outstanding Items</i>	<i>Responsible Party</i>	<i>Expected Availability</i>
1	Resolution Number	City	When Resolution is Adopted
1	City Clerk Document No.	City	When Resolution is Adopted
2	Date and Signature	City	When Resolution is Adopted

FIRST SUPPLEMENTAL BOND INDENTURE
by and between
COMMUNITY FACILITIES DISTRICT NO. 3
(LIBERTY STATION)
and
WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Trustee
Dated as of March 1, 2008

Log of Outstanding Items as of February 12, 2008

<i>Page</i>	<i>Outstanding Items</i>	<i>Responsible Party</i>	<i>Expected Availability</i>
Cover	Amount of Bond Issue	Bond Counsel	Upon Sale of Bonds
1	Amount of Bond Issue	Bond Counsel	Upon Sale of Bonds
2	Amount of Bond Issue	Bond Counsel	Upon Sale of Bonds
3	Maturity Date, Principal Amount, Interest Rate	Bond Counsel	Upon Sale of Bonds
3	Dates of Term Bonds	Bond Counsel	Upon Sale of Bonds
3-4	Application of Bond Proceeds	Bond Counsel	Upon Sale of Bonds
4	Optional Redemption	Bond Counsel	Upon Sale of Bonds
4-5	Mandatory Sinking Fund Redemption	Bond Counsel	Upon Sale of Bonds
6	Extraordinary Redemption	Bond Counsel	Upon Sale of Bonds
S-1	Signature Page	District; Trustee	Pre-Closing
A-1	Bond Number	Bond Counsel	Pre-Closing
A-1	Amount of Bond	Bond Counsel	Upon Sale of Bonds
A-1	Interest Rate	Bond Counsel	Upon Sale of Bonds
A-1	Maturity Date	Bond Counsel	Upon Sale of Bonds
A-1	Dated Date	Bond Counsel	Pre-Closing
A-1	CUSIP Number	Bond Counsel	Upon Sale of Bonds
A-2	Bond Amount	Bond Counsel	Upon Sale of Bonds
A-2	Date of Council Meeting	Bond Counsel	Following Adoption of Resolution of Issuance by City Council
A-3; A-4	Redemption Provisions	Bond Counsel	Upon sale of Bonds
A-6	Signature Page	District / Trustee	Pre-Closing
A-7	Form of Assignment	Bond Owner	Upon Transfer of Bond
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FIRST SUPPLEMENTAL BOND INDENTURE

by and between

**COMMUNITY FACILITIES DISTRICT NO. 3
(LIBERTY STATION)**

and

**WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Trustee**

Dated as of April 1, 2008

Relating to

**\$ _____
COMMUNITY FACILITIES DISTRICT NO. 3
(LIBERTY STATION)
SPECIAL TAX BONDS
SERIES A OF 2008**

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FIRST SUPPLEMENTAL BOND INDENTURE

THIS FIRST SUPPLEMENTAL BOND INDENTURE, dated as of April 1, 2008 (the "First Supplement"), by and between Community Facilities District No. 3 (Liberty Station) (the "District") and Wells Fargo Bank, National Association, as trustee (the "Trustee"), governs the terms of the District's Special Tax Bonds Series A of 2008 which are being issued as Parity Bonds in accordance with the Bond Indenture (the "Original Indenture" and together with the First Supplement, the "Bond Indenture"), dated as of June 1, 2006, between the District and the Trustee, and supplements the Original Indenture.

R E C I T A L S :

WHEREAS, the City Council of the City of San Diego, located in San Diego County, California (hereinafter sometimes referred to as the "legislative body of the District" or the "City"), has heretofore undertaken proceedings and declared the necessity to issue bonds on behalf of the District pursuant to the terms and provisions of the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, Part 1, Division 2, Title 5, of the Government Code of the State of California (the "Act"); and

WHEREAS, based upon Resolution Nos. R-296710 and R-296742 adopted by the legislative body of the District on June 25, 2002, and an election held on June 25, 2002 authorizing the levy of a special tax and the issuance of bonds by the District, the District is authorized to issue bonds in one or more series, pursuant to the Act, in an aggregate principal amount not to exceed \$30,000,000; and

WHEREAS, pursuant to the Original Indenture, the District has previously issued its Special Tax Bonds, Series A of 2006 (the "2006 Bonds") in the aggregate principal amount of \$16,000,000; and

WHEREAS, the legislative body of the District intends to accomplish the financing of certain public facilities for the District (the "Facilities") through the issuance of bonds in an aggregate principal amount of \$_____ designated as the "Community Facilities District No. 3 Special Tax Bonds Series A of 2008" (the "2008 Bonds"); and

WHEREAS, the District has determined all requirements of the Act for the issuance of the 2008 Bonds as Parity Bonds under the terms of the Original Indenture have been satisfied;

NOW, THEREFORE, in order to establish the terms and conditions upon and subject to which the 2008 Bonds are to be issued, and in consideration of the premises and of the mutual covenants contained herein and of the purchase and acceptance of the 2008 Bonds by the Owners thereof, and for other valuable consideration, the receipt of which is hereby acknowledged, the District does hereby covenant and agree, for the benefit of the Owners of the 2006 Bonds, the 2008 Bonds and any Parity Bonds which may be issued from time to time, as follows:

ARTICLE I

DEFINITIONS

Section 1.1. **Definitions.** All capitalized terms not otherwise defined herein shall have the meaning set forth in the Original Indenture. The following definitions set forth in Section 1.1 of the Original Indenture are revised to mean the following with respect to the 2008 Bonds:

“Closing Date” means, with respect to the 2008 Bonds, the date on which the 2008 Bonds were issued and delivered to the initial purchasers thereof.

“Continuing Disclosure Certificate” means that certain Continuing Disclosure Certificate, dated as of April 1, 2008, of the District as originally executed, together with any amendments thereto.

ARTICLE II

GENERAL AUTHORIZATION AND BOND TERMS

Section 2.1. **Amount, Issuance, Purpose and Nature of 2008 Bonds.** Under and pursuant to the Original Indenture, 2008 Bonds in the aggregate principal amount of \$_____ shall be issued as Parity Bonds governed by the terms of the Original Indenture, as supplemented by this First Supplement, for the purpose of financing the Project, funding a deposit to the Reserve Account and paying the costs of administration and issuance of 2008 Bonds.

Section 2.2. **Description of 2008 Bonds; Interest Rates.** The 2008 Bonds shall be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof within a single maturity. The 2008 Bonds shall be numbered as determined by the Trustee.

The 2008 Bonds shall be designated “COMMUNITY FACILITIES DISTRICT NO. 3 (LIBERTY STATION) SPECIAL TAX BONDS SERIES A OF 2008.” The 2008 Bonds shall be dated as of their Delivery Date and shall mature and be payable on September 1 in the years and in the aggregate principal amounts and shall be subject to and shall bear interest at the rates set forth in the table below payable on September 1, 2008 and each Interest Payment Date thereafter:

***Maturity Date
(September 1)***

***Principal Amount
\$***

***Interest Rate
%***

The 2008 Bonds maturing on September 1, 20__ and September 1, 20__ constitute "Term Bonds."

Section 2.3. Form of 2008 Bonds; Execution and Authentication. The 2008 Bonds and the certificate of authentication shall be substantially in the form attached hereto as Exhibit A, which forms are hereby approved and adopted as the forms of such 2008 Bonds and of the certificate of authentication.

Only the 2008 Bonds as shall bear thereon such certificate of authentication in the form set forth in Exhibit A hereto shall be entitled to any right or benefit under the Original Indenture, and no 2008 Bond shall be valid or obligatory for any purpose until such certificate of authentication shall have been manually executed by the Trustee.

Section 2.4. Conditions to Issuance of 2008 Bonds. The 2008 Bonds shall not be issued unless and until the conditions for the issuance of the 2008 Bonds as Parity Bonds pursuant to Section 9.2 of the Original Indenture shall have been satisfied.

ARTICLE III

APPLICATION OF PROCEEDS OF 2008 BONDS

Section 3.1. Application of Proceeds of Sale of 2008 Bonds

(a) The proceeds of the sale of the 2008 Bonds shall be received by the Trustee on behalf of the District and deposited and transferred as follows:

(b) \$_____ shall be transferred to the Costs of Issuance Account of the Acquisition and Construction Fund to pay the Costs of Issuance of the 2008 Bonds;

(c) \$_____ shall be transferred to the 2008 Subaccount of the Reserve Account of the Special Tax Fund which is hereby established in the Special Tax Fund to fund the portion of the Reserve Requirement attributable to the 2008 Bonds; and

(d) \$_____ shall be transferred to the 2008 Subaccount of the Project Account of the Acquisition and Construction Fund.

There is hereby established a 2006 Subaccount of the Reserve Account of the Special Tax Fund, a 2008 Subaccount of the Reserve Account of the Special Tax Fund, a 2006 Subaccount of the Project Account of the Acquisition and Construction Fund, and a 2008 Subaccount of the Project Account of the Acquisition and Construction Fund. On the Delivery Date for the 2008 Bonds, prior to making the foregoing deposits of the proceeds of the 2008 Bonds, all amounts in the Reserve Account shall be transferred to the 2006 Subaccount of the Reserve Account and all amounts in the Project Account shall be transferred to the 2006 Subaccount of the Project Account.

The Trustee may, in its discretion, establish a temporary fund or account in its books and records to facilitate such transfers.

ARTICLE IV

REDEMPTION OF 2008 BONDS

Section 4.1. Redemption of 2008 Bonds

(a) Optional Redemption. The 2008 Bonds maturing on or after September 1, 20__ are subject to redemption prior to maturity at the option of the District from such maturity or maturities as selected by the District and by lot within a maturity, from any available funds, on any Interest Payment Date on or after September 1, 20__, in whole or in part, at the following redemption prices, as expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the date of redemption:

<i>Redemption Date</i>	<i>Redemption Price</i>
Interest Payment Dates through March 1, 20__	%
September 1, 20__ and March 1, 20__	
September 1, 20__ and March 1, 20__	
September 1, 20__ and any Interest Payment Date thereafter	

(b) Mandatory Sinking Fund Redemption. The Term Bonds maturing on September 1, 20__ (the "20__ Term Bonds") shall be called before maturity and redeemed, from Sinking Fund Payments deposited into the Redemption Account, on September 1, 20__, and on each September 1 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The 20__ Term Bonds so called for redemption shall be selected by the Trustee by lot and shall be redeemed at a redemption price for each redeemed 20__ Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

20__ Term Bonds Maturing September 1, 20__

*Sinking Fund Redemption Date**Sinking Fund Payments*

\$

* Maturity

The Term Bonds maturing on September 1, 20__ (the "20__ Term Bonds") shall be called before maturity and redeemed, from Sinking Fund Payments deposited into the Redemption Account, on September 1, 20__, and on each September 1 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The 20__ Term Bonds so called for redemption shall be selected by the Trustee by lot and shall be redeemed at a redemption price for each redeemed 20__ Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

20__ Term Bonds Maturing September 1, 20__

*Sinking Fund Redemption Date**Sinking Fund Payments*

\$

* Maturity

In the event of a partial optional redemption or special mandatory redemption of the Term Bonds pursuant to Section 4.1(a) or (c), each of the remaining Sinking Fund Payments for such Term Bonds, as applicable, will be reduced, as nearly as practicable, on a pro rata basis, in integral multiples of \$5,000.

(c) Extraordinary Redemption. The 2008 Bonds shall be subject to extraordinary redemption as a whole, or in part as nearly as practicable on a pro rata basis among maturities and by lot within a maturity, on any Interest Payment Date from Prepayments deposited to the Redemption Account and allocated to the redemption of the 2008 Bonds as set forth in Section 4.1 of this First Supplement, plus amounts transferred from the Reserve Account to the Redemption Account in connection with such Prepayments, at the following redemption prices, expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the redemption date:

<i>Redemption Date</i>	<i>Redemption Price</i>
Interest Payment Dates through March 1, 20__	%
September 1, 20__ and March 1, 20__	
September 1, 20__ and March 1, 20__	
September 1, 20__ and any Interest Payment Date thereafter	

When a Prepayment is received and transferred to the Trustee, such payment shall be accompanied by a Certificate of the Special Tax Consultant stating the principal amount of the 2006 Bonds and the 2008 Bonds and any Parity Bonds, respectively, to be redeemed from such Prepayment.

With respect to any notice of optional redemption of the 2008 Bonds, such notice may state that such redemption shall be conditional upon the receipt by the Trustee, on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium if any, and interest on the 2008 Bonds to be redeemed and that, if such money shall not have been so received, said notice shall be of no force and effect and the Trustee shall not be required to redeem such 2008 Bonds. In the event that such notice of redemption contains such a condition and such moneys are not so received, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

ARTICLE V

MISCELLANEOUS

Section 5.1. **Waiver of Certain Provisions of Section 2.9.** The legislative body of the District has authorized the provisions in the second paragraph of Section 2.9 of the Original Indenture to be waived as permitted therein with respect to transfers of the Bonds that comply with this Section 5.1. The provisions of the second paragraph of Section 2.9 shall no longer be applicable to the transfer of a Bond provided that in connection with the first transfer of such Bond following the issuance of the 2008 Bonds, the Owner of such Bond has executed and delivered to the District an Agreement Regarding Removal of Transfer Restrictions in the form set forth in Exhibit C hereto (the "Transfer Agreement") and has provided to the Trustee a written certificate as required by Section 2 of the Transfer Agreement.

Upon the surrender of a Bond by an Owner pursuant to the terms of the Transfer Agreement, the Trustee shall register the transfer of such Bond to the purchaser designated by the Owner in the form attached as Exhibit A to the Original Indenture but removing the transfer legend on the face of the Bond.

Section 5.2. **Trustee Fees and Expenses.** The Trustee's fees and expenses with respect to the 2008 Bonds are set forth in Exhibit B hereto.

Section 5.3. **Restriction on Issuance of Parity Bonds.** The District covenants that, notwithstanding the provisions of Section 9.2 of the Original Indenture, following the issuance of the 2008 Bonds, it will issue Parity Bonds only for the purpose of refunding all or a portion of the Bonds, the 2008 Bonds and other Parity Bonds issued for refunding purposes.

Section 5.4. **Allocation of Prepayments.** Any provision of the Original Indenture to the contrary notwithstanding, the Prepayments shall be allocated by the District to redeem the Bonds, the 2008 Bonds and any Outstanding Parity Bonds on a pro rata basis based on the principal amount Outstanding as of the date such Prepayments are received.

Section 5.5. **Provisions of Original Indenture in Effect.** Except as expressly modified herein, all of the provisions of the Original Indenture shall remain in full force and effect.

Section 5.6. **Partial Invalidity.** If any section, paragraph, sentence, clause or phrase of this First Supplement shall for any reason be held illegal, invalid or unenforceable, such holding shall not affect the validity of the remaining portions of this First Supplement. The District hereby declares that it would have entered into this First Supplement and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issuance of the 2008 Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences. Clauses, or phrases of this First Supplement may be held illegal, invalid or unenforceable.

Section 5.7. **Execution in Counterparts.** This First Supplement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 5.8. **Governing Law.** This First Supplement shall be construed and governed in accordance with the laws of the State of California applicable to contracts made and performed in such state.

IN WITNESS WHEREOF, COMMUNITY FACILITIES DISTRICT NO. 3 (LIBERTY STATION) has caused this First Supplemental Bond Indenture to be signed by an Authorized Representative of the District and Wells Fargo Bank, National Association, in token of its acceptance of the trust created hereunder and has caused this First Supplemental Bond Indenture to be signed in its corporate name by its officer identified below, all as of the day and year first above written.

COMMUNITY FACILITIES DISTRICT NO. 3
(LIBERTY STATION)

By: _____
Authorized Officer

WELLS FARGO BANK, NATIONAL
ASSOCIATION, as Trustee

By: _____
Its: Authorized Officer

EXHIBIT A**FORM OF COMMUNITY FACILITIES DISTRICT NO. 3 (LIBERTY STATION) SPECIAL
TAX BOND SERIES A OF 2008**

R-_____

\$ _____

**UNITED STATES OF AMERICA
STATE OF CALIFORNIA
COUNTY OF SAN DIEGO****COMMUNITY FACILITIES DISTRICT NO. 3
(LIBERTY STATION)
SPECIAL TAX BONDS SERIES A OF 2008**

INTEREST RATE:	MATURITY DATE:	DATED DATE:	CUSIP:
_____ %	September 1, _____	_____ 1, 2008	_____

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: _____ AND NO/100 DOLLARS

COMMUNITY FACILITIES DISTRICT NO. 3 (LIBERTY STATION) (the "District") which was formed by the City of San Diego (the "City") and is situated in the County of San Diego, State of California, FOR VALUE RECEIVED, hereby promises to pay, solely from certain amounts held under the Bond Indenture (as hereinafter defined), to the Registered Owner named above, or registered assigns, on the Maturity Date set forth above, unless redeemed prior thereto as hereinafter provided, the Principal Amount set forth above, and to pay interest on such Principal Amount from the Interest Payment Date (as hereinafter defined) next preceding the date of authentication hereof, unless (i) the date of authentication is an Interest Payment Date in which event interest shall be payable from such date of authentication; (ii) the date of authentication is after a Record Date (as hereinafter defined) but prior to the immediately succeeding Interest Payment Date, in which event interest shall be payable from the Interest Payment Date immediately succeeding the date of authentication; or (iii) the date of authentication is prior to the close of business on the first Record Date in which event interest shall be payable from the Dated Date set forth above. Notwithstanding the foregoing, if at the time of authentication of this Bond interest is in default, interest on this Bond shall be payable from the last Interest Payment Date to which the interest has been paid or made available for payment or, if no interest has been paid or made available for payment, interest on this Bond shall be payable from the Dated Date set forth above. Interest will be paid semiannually on March 1 and September 1 (each an "Interest Payment Date"), commencing September 1, 2008, at the Interest Rate set forth above, until the Principal Amount hereof is paid or made available for payment.

The principal of and premium, if any, on this Bond are payable to the Registered Owner hereof in lawful money of the United States of America upon presentation and surrender of this Bond at the Principal Office of the Trustee (as such term is defined in the Bond Indenture), initially Wells Fargo Bank, National Association (the "Trustee"). Interest on this Bond shall be paid by check of the Trustee mailed, by first class mail, postage prepaid, or in certain circumstances described in the Bond Indenture by wire transfer to an account within the United States of America, to the Registered Owner hereof as of the close of business on the fifteenth day of the month preceding the month in which the Interest Payment Date occurs (the "Record Date") at such Registered Owner's address as it appears on the registration books maintained by the Trustee.

This Bond is one of a duly authorized issue of "Community Facilities District No. 3 (Liberty Station) Special Tax Bonds Series A of 2008" (the "2008 Bonds") issued in the aggregate principal amount of \$ _____ pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, being Sections 53311, *et seq.*, of the California Government Code (the "Act") for the purpose of financing certain public facilities funding a reserve account and paying certain costs related to the issuance of the 2008 Bonds. The issuance of the 2008 Bonds and the terms and conditions thereof are provided for by a resolution adopted by the City Council of the City, acting in its capacity as the legislative body of the District (the "Legislative Body"), on _____, 2008 and a Bond Indenture dated as of June 1, 2006, between the District and the Trustee, as amended and supplemented by a certain First Supplemental Bond Indenture, dated as of April 1, 2008 between the District and the Trustee (collectively, the "Bond Indenture"), and this reference incorporates the Bond Indenture herein, and by acceptance hereof the Registered Owner of this 2008 Bond assents to said terms and conditions. The Bond Indenture is executed and delivered and this 2008 Bond is issued under, and both are to be construed in accordance with, the laws of the State of California.

This 2008 Bond has been issued as a Parity Bond in accordance with Section 9.2 of the Bond Indenture.

Pursuant to the Act and the Bond Indenture, the principal of, premium, if any, and interest on this 2008 Bond are payable solely from the portion of the annual special taxes authorized under the Act to be levied and collected within the District (the "Special Taxes") and certain other amounts pledged to the repayment of the 2008 Bonds as set forth in the Bond Indenture. Any amounts for the payment hereof shall be limited to the Special Taxes pledged and collected and foreclosure proceeds (exclusive of penalties and interest) received following a default in payment of the Special Taxes and other amounts deposited to the Special Tax Fund (other than the Administrative Expense Account therein) established under the Bond Indenture, except to the extent that other provision for payment has been made by the Legislative Body, as may be permitted by law. The District has covenanted for the benefit of the owners of the 2008 Bonds that under certain circumstances described in the Bond Indenture it will commence and diligently pursue to completion appropriate foreclosure proceedings in the event of delinquencies of Special Tax installments levied for payment of principal and interest on the 2008 Bonds.

The 2008 Bonds maturing on or after September 1, 20__ may be redeemed prior to maturity at the option of the District from such maturity or maturities as selected by the District and by lot within a maturity, from any available funds, on any Interest Payment Date on or after September 1, 20__, in whole or in part, at the following redemption prices, as expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the date of redemption:

<i>Redemption Date</i>	<i>Redemption Price</i>
Interest Payment Dates through March 1, 20__	%
September 1, 20__ and March 1, 20__	
September 1, 20__ and March 1, 20__	
September 1, 20__ and any Interest Payment Date thereafter	

The Term Bonds maturing on September 1, 20__ (the "20__ Term Bonds") shall be called before maturity and redeemed, from Sinking Fund Payments deposited into the Redemption Account, on September 1, 20__, and on each September 1 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The 20__ Term Bonds so called for redemption shall be selected by the Trustee by lot and shall be redeemed at a redemption price for each redeemed 20__ Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

20__ Term Bonds Maturing September 1, 20__

<i>Sinking Fund Redemption Date</i>	<i>Sinking Fund Payments</i>
	\$

*

* Maturity

The Term Bonds maturing on September 1, 20__ (the "20__ Term Bonds") shall be called before maturity and redeemed, from Sinking Fund Payments deposited into the Redemption Account, on September 1, 20__, and on each September 1 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The 20__ Term Bonds so called for redemption shall be selected by the Trustee by lot and shall be redeemed at a redemption price for each redeemed 20__ Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

20__ Term Bonds Maturing September 1, 20__

<i>Sinking Fund Redemption Date</i>	<i>Sinking Fund Payments</i>
	\$

*

* Maturity

The 2008 Bonds are subject to extraordinary redemption as a whole, or in part on a pro rata basis among maturities, on any Interest Payment Date, and shall be redeemed by the Trustee, from

Prepayments deposited to the Redemption Account plus amounts transferred from the Reserve Account in connection with such transfers, at the following redemption prices expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the redemption date:

<i>Redemption Date</i>	<i>Redemption Price</i>
Interest Payment Dates through March 1, 20__	%
September 1, 20__ and March 1, 20__	
September 1, 20__ and March 1, 20__	
September 1, 20__ and any Interest Payment Date thereafter	

Notice of redemption with respect to the 2008 Bonds to be redeemed shall be mailed to the registered owners thereof not less than 30 nor more than 45 days prior to the redemption date by first class mail, postage prepaid, to the addresses set forth in the registration books. Neither a failure of the Registered Owner hereof to receive such notice nor any defect therein will affect the validity of the proceedings for redemption. All 2008 Bonds or portions thereof so called for redemption will cease to accrue interest on the specified redemption date, provided that funds for the redemption are on deposit with the Trustee on the redemption date. Thereafter, the registered owners of such 2008 Bonds shall have no rights except to receive payment of the redemption price upon the surrender of the 2008 Bonds.

This 2008 Bond shall be registered in the name of the Registered Owner hereof, as to both principal and interest, and the District and the Trustee may treat the Registered Owner hereof as the absolute owner for all purposes and shall not be affected by any notice to the contrary.

The 2008 Bonds are issuable only in fully registered form in the denomination of \$5,000 or any integral multiple thereof and may be exchanged for a like aggregate principal amount of 2008 Bonds of other authorized denominations of the same issue and maturity, all as more fully set forth in the Bond Indenture. This 2008 Bond is transferable by the Registered Owner hereof, in person or by his attorney duly authorized in writing, at the Principal Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Bond Indenture, upon surrender and cancellation of this 2008 Bond. Upon such transfer, a new registered 2008 Bond of authorized denomination or denominations for the same aggregate principal amount of the same issue and maturity will be issued to the transferee in exchange therefor.

The Trustee shall not be required to register transfers or make exchanges of (i) any 2008 Bonds for a period of 15 days next preceding any selection of the 2008 Bonds to be redeemed, or (ii) any 2008 Bonds chosen for redemption.

The rights and obligations of the District and of the registered owners of the 2008 Bonds may be amended at any time, and in certain cases without notice to or the consent of the registered owners, to the extent and upon the terms provided in the Bond Indenture.

THE 2008 BONDS DO NOT CONSTITUTE OBLIGATIONS OF THE CITY OF SAN DIEGO OR OF THE DISTRICT FOR WHICH THE CITY OF SAN DIEGO OR THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE, OR HAS LEVIED OR PLEDGED, GENERAL OR SPECIAL TAXES, OTHER THAN THE SPECIAL TAXES REFERENCED HEREIN. THE 2008 BONDS ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE FROM THE PORTION OF THE SPECIAL TAXES AND OTHER AMOUNTS PLEDGED UNDER THE BOND

INDENTURE BUT ARE NOT A DEBT OF THE CITY OF SAN DIEGO, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION OR RESTRICTION.

This 2008 Bond shall not become valid or obligatory for any purpose until the certificate of authentication and registration hereon endorsed shall have been dated and signed by the Trustee.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required by law to exist, happen and be performed precedent to and in the issuance of this 2008 Bond do exist, have happened and have been performed in due time, form and manner as required by law, and that the amount of this 2008 Bond, together with all other indebtedness of the District, does not exceed any debt limit prescribed by the laws or Constitution of the State of California.

IN WITNESS WHEREOF, Community Facilities District No. 3 (Liberty Station) has caused this 2008 Bond to be dated as of _____, 2008, to be signed on behalf of the District by the Council President of the City Council of the City by his facsimile signature and attested by the facsimile signature of the City Clerk of the City.

 Council President of the City Council of the
 City of San Diego, California, acting on behalf
 of the legislative body of Community
 Facilities District No. 3 (Liberty Station)

ATTEST:

 City Clerk of The City of San Diego, California,
 acting on behalf of the legislative body of
 Community Facilities District No. 3 (Liberty Station)

**(FORM OF TRUSTEE'S CERTIFICATE
 OF AUTHENTICATION AND REGISTRATION)**

This is one of the 2008 Bonds described in the within-defined Bond Indenture.

Dated: _____, 2008

WELLS FARGO BANK, NATIONAL
 ASSOCIATION as *Trustee*

By: _____
 Its: Authorized Signatory

(FORM OF LEGAL OPINION)

The following is a true copy of the opinion rendered by Stradling Yocca Carlson & Rauth, a Professional Corporation, in connection with the issuance of, and dated as of the date of the original delivery of, the 2008 Bonds. A signed copy is on file in my office.

City Clerk of the City of San Diego,
California, acting on behalf of the legislative
body of Community Facilities District No. 3
(Liberty Station)

(FORM OF ASSIGNMENT)

For value received the undersigned do(es) hereby sell, assign and transfer unto

whose tax identification number is _____,
the within-mentioned registered 2008 Bond and hereby irrevocably constitute(s) and appoint(s)

attorney to transfer the same on the books of the Trustee with full power of substitution in the
premises.

Dated: _____

Signature guaranteed:

NOTE: Signature(s) must be guaranteed by an
eligible guarantor institution.

NOTE: The signatures(s) on this Assignment
must correspond with the name(s) as written on
the face of the within 2008 Bond in every
particular without alteration or enlargement or
any change whatsoever.

EXHIBIT B
TRUSTEE'S FEE SCHEDULE

Acceptance Fee: ***\$1,500.00***

This is a one-time fee, payable at closing, which covers the examination of the Bond Indenture and other supporting documents and the establishment of all necessary accounts and records. Extraordinary legal expenses, if incurred, are not included in the initial fee.

Legal Counsel Fee (only charged if eligibility opinion is required): ***\$300.00***

Wells Fargo will use in-house counsel. The \$300 expense will be incurred only in the event that an opinion of trustee's counsel is required. If no opinion is required, there will not be any charge for use of counsel. Wells Fargo does not anticipate the need for outside counsel for standard transactions, but reserves the right to hire counsel if deemed necessary for which fees would be passed to you as negotiated.

Annual Trustee Administration Fee : ***\$1,900.00***

The annual administration fee covers normal administration of the trust accounts and includes ordinary out-of-pocket expenses such as miscellaneous postage and mailings. The fee is payable annually in advance, with the first installment due at the time of closing, and will not be prorated in case of early termination. **It is Wells Fargo's practice to charge an "all inclusive" Annual Fee. No additional add-on or transactional fees for tasks performed such as the production of checks/wires or the processing of construction requisitions will be billed.**

Paying Agent Fee: ***Included in Annual Administration Fee***

For maintenance of trust and registered bondholder accounts – includes transferring of securities, placing stop transfers, responding to bondholder/customer inquiries, processing legal transfers, making principal and interest payments and preparing and filing federal and state tax information. This Annual Fee is payable upon closing and each anniversary thereafter, and will not be prorated in case of early termination.

Dissemination Agent Fee (if requested): ***\$300.00***

The Securities and Exchange Commission's guideline of continuing disclosure for issuers requires timely disclosure of any reportable events to repositories and/or information services. Wells Fargo's role, if appointed as dissemination agent, would be to utilize an efficient blend of technology, personnel and communications to disseminate information.

Redemption Fee: ***Included in Annual Administration Fee***
Project Fund Draw Fees: ***Included in Annual Administration Fee***
Investment Fees: ***Included in Annual Administration Fee***

Wells Fargo currently offers a full range of money market funds free of charge (no 12-B-1 fees).

Out-of-Pocket Expenses:***Billable at Cost***

We only charge for out-of-pocket expenses in response to specific tasks assigned by the client. Therefore, we cannot anticipate what specific out-of-pocket items will be needed or what corresponding expenses will be incurred. Such possible expenses could be for, but are not limited to, express mail and messenger charges, travel expenses to attend closing or other meetings. There are no charges for indirect out-of-pocket expenses.

Period of time for which above fees are guaranteed:***5 years***

We do not anticipate any fee adjustments to be made. As such we guarantee our fees for a minimum of five years from the date of issuance. In the event a fee adjustment is to be proposed, timely prior verbal and written notice will be given to the District.

EXHIBIT C**AGREEMENT REGARDING REMOVAL OF TRANSFER RESTRICTIONS**

This AGREEMENT REGARDING REMOVAL OF TRANSFER RESTRICTIONS (the Agreement), dated as of _____, 20__, by and between COMMUNITY FACILITIES DISTRICT NO. (LIBERTY STATION)(the "District"), a community facilities district organized and existing under the laws of the State of California, and _____ (the "Owner").

RECITALS:

A. The District has issued its \$16,000,000 Special Tax Bonds, Series A of 2006 (the "Bonds") pursuant to the terms of that certain Bond Indenture, dated as of June 1, 2006, as supplemented by the First Supplemental Indenture, dated as of April 1, 2008 (collectively, the "Indenture") each by and between the District and Wells Fargo Bank National Association, as trustee; and

B. The Owner has purchased a portion of the Bonds which are subject to certain transfer restrictions set forth in Section 2.9 of the Indenture which provides that the District may elect to waive such restrictions; and

C. The District is willing to waive the transfer restrictions in Section 2.9 in consideration of the Owner's agreement to provide certain disclosure to the purchaser of the Bonds being transferred by the Owner;

AGREEMENT:**Section 1.0 Recitals**

The foregoing recitals are true and correct.

Section 2.0 Removal of Transfer Restrictions

The District agrees that in consideration of Owner's agreement to provide certain disclosure to anyone purchasing the Bonds from the Owner as described in the following paragraph, the transfer restrictions contained in the second paragraph of Section 2.9 of the Indenture shall no longer be applicable to the Bonds being transferred by the Owner

The Owner agrees that in consideration of the District's agreement to remove the transfer restrictions initially applicable to the Bonds pursuant to the second paragraph of Section 2.9 of the Indenture, in conjunction with the transfer of any Bond by it, Owner will provide to the purchaser of such Bond the most current disclosure regarding the District. Until the District files its first Annual Report pursuant to the Continuing Disclosure Certificate of the District, dated as of _____, 2008 (the "Disclosure Certificate"), the most recent disclosure shall consist of (1) the Official Statement for the District's Special Tax Bonds, Series A of 2008, (2) any significant event notice filed by the District pursuant to Section 5 of the Disclosure Certificate, and (3) the most recent Annual Report and any report of a significant event filed by McMillin-NTC, LLC pursuant to

the Continuing Disclosure Agreement, dated as of _____ 1, 2008, by and between McMillin-NTC, LLC and Wells Fargo National Bank. Following the filing by the District of the first Annual Report pursuant to the Disclosure Certificate, the most current disclosure to be provided by the Owner to any purchaser of Bonds from it will be the most recent Annual Report of the District and the items listed as (2) and (3) of the preceding sentence.

In connection with each transfer by it of a Bond to a purchaser, the Owner shall provide a written certificate to the Trustee stating that it has provided to the purchaser the disclosure required by this Section 2.0 and shall surrender the Bond to be transferred for registration by the Trustee. The Trustee shall not register the transfer of a Bond by the Owner until it receives such written certificate. The form of such certificate is set forth as Attachment 1 hereto.

Section 3.0 Successors and Assigns.

All of the covenants, stipulations, promises, and agreements contained in this Agreement by or on behalf of, or for the benefit of, either of the parties hereto, shall bind or inure to the benefit of any of the successors and assigns of the respective parties.

Section 4.0 Amendment.

This Agreement may not be amended except in writing by the District and the Owner, duly executed by their authorized agents.

Section 5.0 Entire Agreement.

This Agreement supersedes and cancels any and all other agreements, either oral or written, between the parties with respect to the subject matter herein. Each party to this Agreement acknowledges that no representation by any party which is not embodied herein or in any other agreement, statement, or promise not contained in this Agreement shall be valid and binding. The parties hereto agree to act in a manner which will not frustrate the purposes of this Agreement.

Section 6.0 Attorney Fees.

In the event of any action or proceeding brought by one party against another under this Agreement, the prevailing party shall be entitled to recover its reasonable attorney fees, costs and expenses incurred in such action or proceeding. In addition to the foregoing, the prevailing party shall be entitled to its reasonable attorney fees and costs and expenses incurred in any post-judgment proceedings to collect or enforce the judgment. This provision is separate and several and shall survive the merger of this Agreement into any judgment on this Agreement.

Section 7.0 Execution.

This Agreement may be executed in several counterparts each of which shall be an original and all of which shall constitute but one and the same agreement.

Section 8.0 Notices.

All correspondence, notices or certificates required by this Agreement shall be sufficiently given and served if delivered by hand directly to the offices named below or sent by United States first-class mail postage prepaid and addressed as follows:

(a) if to the Owner:

(b) if to the District: City of San Diego
202 C Street, MS7B
San Diego, California 92101
Attention: Debt Management Director

Any party may change its mailing address at any time by giving written notice of such change to the other parties in the manner provided herein. All notices under this Agreement shall be deemed given, received, made, or communicated on the date personal delivery is effected or, if mail, on the delivery date or attempted delivery date shown on the return receipt.

Section 9.0 Interpretation of Agreement.

The parties hereto acknowledge and agree that each has been given the opportunity to review this Agreement with legal counsel independently, and/or has the requisite experience and sophistication to understand, interpret, and agree to the particular language of the provisions hereof. In the event of an ambiguity in or dispute regarding the interpretation of same, the interpretation of this Agreement shall not be resolved by any rule of interpretation providing for interpretation against the party who causes the uncertainty to exist or against the draftsman.

Section 10.0 Choice of Law.

This Agreement has been negotiated and executed in the State of California and shall be governed and construed by the laws of the State without regard to the conflicts of laws principles.

Section 11.0 Captions.

The captions, headings, and titles to the various articles and paragraphs of this Agreement are not a part of this Agreement, are for convenience and identification only, and shall have no effect upon the construction or interpretation of any part hereof.

Section 12.0 No Third Party Benefit.

This Agreement is by and between the parties named herein and no third party shall be benefited hereby. This Agreement may not be enforced by anyone other than a party hereto or a successor to such party of the type described in Section 3.0.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day and year first written.

COMMUNITY FACILITIES DISTRICT NO. 3
(LIBERTY STATION)

By: _____
Its: Authorized Officer

OWNER

By: _____
Its: _____

ATTACHMENT 1

CERTIFICATE REGARDING REMOVAL OF TRANSFER RESTRICTIONS

The undersigned, _____ (the "Owner") certifies to the following:

1. This Certificate Regarding Removal of Transfer Restrictions is provided by the Owner in accordance with Section 5.1 of that certain First Supplemental Bond Indenture (the "First Supplement"), dated as of April 1, 2008, by and between Community Facilities District No. 3 (the "District") and Wells Fargo Bank, National Association, as trustee (the "Trustee"), which supplements that certain Bond Indenture, dated as of June 1, 2006, by and between the District and the Trustee (as supplemented, the "Indenture") and Section 2.0 of that certain Agreement Regarding Removal of Transfer Restrictions, dated as of _____, 20__, by and between the District and the Owner (the "Transfer Agreement").

2. The Owner has requested the Trustee to transfer the following Bond(s) (the "Bond(s)") to _____ (the "Purchaser"):

[DESCRIPTION OF BOND(S) BEING TRANSFERRED – CUSIP / MATURITY / LOT / OR SIMILAR INFORMATION].

3. The Owner has provided to the Purchaser the current disclosure regarding the District required by Section 2.0 of the Transfer Agreement and has surrendered the Bond(s) to be transferred for registration by the Trustee.

Dated: _____, 20__

[NAME OF OWNER]

By: _____
Name: _____
Its: _____

RECEIVED
08 FEB 28 PM 2:22
CITY OF LOS ANGELES
OFFICE OF THE CLERK

**COMMUNITY FACILITIES DISTRICT NO. 3
(LIBERTY STATION)
SPECIAL TAX BONDS SERIES A OF 2008**

Log of Outstanding Items as of February 15, 2008

<i>Document</i>	<i>Page</i>	<i>Outstanding Items</i>	<i>Responsible Party</i>	<i>Expected Availability</i>
Purchase Agreement	1	Principal amount of Bonds (two places)	Stone & Youngberg	Pricing date of Bonds
	1	Date of Purchase Agreement	Stone & Youngberg	Pricing date of Bonds
	1	Purchase price for Bonds, premium and Purchaser's structuring fee and expenses	Stone & Youngberg	Pricing date of Bonds
	2	Resolution No. and date of adoption	City	Adoption date
	2	Date of POS	Bond Counsel	Prior to printing of POS
	3	Closing date of Bond sale	Stone & Youngberg	Pricing date of Bonds
	3	Date of Amended Purchase and Finance Agreement	Bond Counsel	Prior to pricing date
	Exhibit A	Bond maturities, principal amounts, rates, yields and prices	Stone & Youngberg	Pricing date of Bonds
	Exhibit B	Date of POS and principal amount of Bonds	Bond counsel/Stone & Youngberg	Prior to printing of POS
	Exhibit C-1	Date of Purchase Agreement	Stone & Youngberg	Pricing date of Bonds
	Exhibit C-2	Date of Purchase Agreement	Stone & Youngberg	Pricing date of Bonds
	17	Signatures	Stone & Youngberg, City, City Attorney	Pricing date of Bonds
	B-3	Signature	Developer	Pricing date of Bonds
	C-4, C-8	Signatures	Developer & Affiliates	Closing date

§ _____
**COMMUNITY FACILITIES DISTRICT NO. 3
(LIBERTY STATION)
SPECIAL TAX BONDS SERIES A OF 2008**

BOND PURCHASE AGREEMENT

_____, 2008

Community Facilities District
No. 3 (Liberty Station)
c/o City of San Diego
Chief Financial Officer
202 C Street
San Diego, CA 92101-3867

Ladies and Gentlemen:

Stone & Youngberg LLC (the "Representative"), on behalf of itself and E. J. De La Rosa & Co., Inc. (collectively, the "Underwriter"), acting not as a fiduciary or agent for you, but on behalf of the Underwriter, offers to enter into this Bond Purchase Agreement with Community Facilities District No. 3 (Liberty Station) (the "District") which, upon acceptance, will be binding upon the District and upon the Underwriter. This offer is made subject to acceptance of it by the District on the date hereof, and if not accepted will be subject to withdrawal by the Underwriter upon notice delivered to the District at any time prior to the acceptance hereof by the District.

The Underwriter has designated the Representative to act on behalf of the Underwriter. The Representative hereby acknowledges that it is duly authorized to execute this Bond Purchase Agreement and to take all action required or permitted to be taken hereunder by or on behalf of the Underwriter. Any authority, discretion or other power conferred upon the Underwriter by this Bond Purchase Agreement may be executed by the representative alone.

1. Purchase, Sale and Delivery of the Bonds.

(a) Subject to the terms and conditions and in reliance upon the representations, warranties and agreements set forth herein, the Underwriter agrees to purchase from the District, and the District agrees to sell to the Underwriter, all (but not less than all) of the \$_____ Community Facilities District No. 3 (Liberty Station) Special Tax Bonds Series A of 2008 (the "Bonds"). The Bonds shall be dated the Closing Date (hereinafter defined), and bear interest (payable semiannually on March 1 and September 1 in each year, commencing September 1, 2008) at the rates per annum and maturing on the dates and in the amounts set forth in Exhibit A hereto. The purchase price for the Bonds shall be \$_____ (representing the principal amount of the Bonds, less an Underwriter's discount of \$_____, and [less net original issue discount] [plus net original issue premium] of \$_____). The Bonds will have the maturities and bear interest at the rates set forth on Exhibit A hereto. The Bonds will be

subject to redemption as set forth in the Bond Indenture (defined below). The Bonds will be issued in book-entry form only.

The Bonds shall be issued and secured under the provisions of, and shall be payable and subject to redemption as provided in, a Bond Indenture, dated as of June 1, 2006, by and between the District and Wells Fargo Bank, National Association (the "Trustee"), as amended and supplemented by a First Supplemental Bond Indenture, dated as of March 1, 2008 (as amended, the "Bond Indenture"), approved in Resolution No. ____ adopted by the City Council (the "City Council") of the City of San Diego (the "City"), acting in its capacity as the legislative body of the District, on _____, 2008 (the "Resolution of Issuance"). The Bonds and interest thereon will be payable from a special tax (the "Special Tax") levied and collected on the taxable land within the District. Proceeds of the sale of the Bonds will be used in accordance with the Bond Indenture and the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of the State of California) (the "Act"), to construct and acquire various public improvements required with respect to the development of certain land within Improvement Area No. 1 and Improvement Area No. 2 of the District, to fund an additional deposit to the Reserve Account securing the District's \$16,000,000 Community Facilities District No. 3 (Liberty Station) Special Tax Bonds Series A of 2006 (the "2006 Bonds") and Bonds, and to pay costs of issuance of the Bonds. The Bonds and the 2006 Bonds are secured on a parity basis under the Bond Indenture.

(b) At or prior to the acceptance hereof, the District has authorized the use of the Official Statement in connection with the public offering of the Bonds. The District also has consented to the use by the Underwriter prior to the date hereof of the Preliminary Official Statement (defined below) relating to the Bonds in connection with the public offering of the Bonds. Authorized officers of the District have certified to the Underwriter that such Preliminary Official Statement was deemed to be final as of its date for purposes of Rule 15c2-12 (defined below), with the exception of certain final pricing and related information referred to in Rule 15c2-12.

(c) At or prior to the acceptance hereof by the District, the Underwriter shall have received, unless otherwise waived by the Underwriter and the District, a certificate executed by an authorized officer of McMillin-NTC, LLC, a Delaware limited liability company (the "Developer"), in substantially the form attached hereto as Exhibit B, with only such changes therein as shall have been accepted by the Underwriter and the District.

(d) Subsequent to its receipt of a certificate from the District deeming the Preliminary Official Statement for the Bonds, dated _____, 2008 (which Preliminary Official Statement, together with the cover page and all appendices thereto, is herein collectively referred to as the "Preliminary Official Statement" and which, as amended with the prior approval of the Underwriter and executed by the District, will be referred to herein as the "Official Statement") final for purposes of Rule 15c2-12 ("Rule 15c2-12") of the Securities and Exchange Commission (the "SEC"), the Underwriter has distributed copies of the Preliminary Official Statement. The District hereby ratifies the use by the Underwriter of the Preliminary Official Statement and authorizes the Underwriter to use and distribute the final Official Statement dated the date hereof (including all information previously permitted to have been omitted by Rule 15c2-12 and any supplements and amendments thereto as have been approved by the District as evidenced by the

execution and delivery of such document by an officer of the District (the "Official Statement"), the Bond Indenture, the Continuing Disclosure Certificate of the District (the "District Disclosure Certificate"), this Bond Purchase Agreement, any other documents or contracts to which City or the District is a party, and all information contained therein, and all other documents, certificates and statements furnished by the City and the District to the Underwriter in connection with the transactions contemplated by this Bond Purchase Agreement, in connection with the offer and sale of the Bonds by the Underwriter. The Underwriter hereby agrees to deliver a copy of the Official Statement to a national repository on or before the Closing Date (as hereinafter defined) and to each investor that purchases any of the Bonds prior to the "end of the underwriting period" (as such term is defined in Section 2(g) below) and otherwise to comply with all applicable statutes and regulations in connection with the offering and sale of the Bonds, including, without limitation, Rule G-32 of the Municipal Securities Rulemaking Board (the "MSRB") and Rule 15c2-12. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. As of the date hereof, the Underwriter has not notified the District of the need to modify or supplement the Preliminary Official Statement. The Underwriter further confirms that it will comply with all suitability requirements of the SEC and MSRB in connection with its sale of the Bonds to investors.

(e) At 8:00 A.M., Pacific Daylight Time, on _____, 2008, or at such earlier time or date as shall be agreed upon by the Underwriter and the District (such time and date being herein referred to as the "Closing Date"), the District will deliver (i) to the Depository Trust Company in New York, New York, the Bonds in definitive form (all Bonds being in book-entry form registered in the name of Cede & Co. and having the CUSIP numbers assigned to them printed thereon), duly executed by the officers of the District as provided in the Bond Indenture, and (ii) to the Underwriter, at the offices of Stradling Yocca Carlson & Rauth, a Professional Corporation ("Bond Counsel") in Newport Beach, California, or at such other place as shall be mutually agreed upon by the District and the Underwriter, the other documents herein mentioned; and the Underwriter shall accept such delivery and pay the purchase price of the Bonds in immediately available funds (such delivery and payment being herein referred to as the "Closing"). Notwithstanding the foregoing, the Underwriter may, in its discretion, accept delivery of the Bonds in temporary form upon making arrangements with the District which are satisfactory to the Underwriter relating to the delivery of the Bonds in definitive form.

2. Representations, Warranties and Agreements of the District. The District represents, warrants and covenants to and agrees with the Underwriter that:

(a) The City is duly organized and is validly existing under the Constitution and laws of the State as a charter city and municipal corporation, has full legal right, power, and authority to execute, deliver and perform its obligations under the Purchase and Finance Agreement filed May 7, 2002 in the Office of the City Clerk as Document No. RR-296472, and as supplemented by letter agreement from the City dated June 11, 2004 as amended by the First Amendment to Purchase and Finance Agreement, dated as of _____, 2008 (collectively, the "Purchase and Finance Agreement") between the Developer and the City and to carry out all transactions contemplated by the Purchase and Finance Agreement, and the Cooperation

Agreement, filed June 26, 2000 in the Office of the City Clerk as Document No. RR-293410, as amended by an agreement dated June 25, 2002 (collectively, the "Cooperation Agreement" and, with the Purchase and Finance Agreement, the "City Documents") between the City and the Redevelopment Agency of the City of San Diego (the "Agency"). The City Council, in its capacity as the City Council for the City, has duly adopted a resolution forming the District (the "Resolution of Formation") and an ordinance authorizing the levy of a special tax on the taxable property within the District (the "Special Tax Ordinance") and all other ordinances and resolutions referred to in the Resolution of Formation and the Special Tax Ordinance. The District has caused to be recorded in the real property records of the County of San Diego two Notices of Special Tax Lien (collectively, the "Notice of Special Tax Lien") (such ordinances and resolutions and Notice of Special Tax Lien being collectively referred to herein as the "Formation Documents") with respect to Improvement Area No. 1 of the District ("Improvement Area No. 1") and Improvement Area No. 2 of the District ("Improvement Area No. 2" and, with Improvement Area No. 1, the "Improvement Areas"). Each of the Formation Documents remains in full force and effect as of the date hereof and has not been amended.

(b) The District is duly organized and validly existing as a community facilities district under the laws of the State of California. The District has, and at the Closing Date will have, as the case may be, full legal right, power and authority (i) to execute, deliver and perform its obligations under this Bond Purchase Agreement, the District Disclosure Certificate, and the Bond Indenture, and to carry out all transactions contemplated by each of such agreements, (ii) to issue, sell and deliver the Bonds to the Underwriter pursuant to the Resolution of Issuance and Bond Indenture as provided herein, and (iii) to carry out, give effect to and consummate the transactions contemplated by the Formation Documents and by the Bond Indenture, this Bond Purchase Agreement, and the District Disclosure Certificate (the Bond Indenture, this Bond Purchase Agreement and the District Disclosure Certificate are collectively referred to herein as the "District Documents") and the Official Statement;

(c) The District and the City, as applicable, each has complied, and will at the Closing Date be in compliance, in all material respects with the Formation Documents and the District Documents, and any immaterial compliance by the District and the City, if any, will not impair the ability of the District and the City, as applicable, to carry out, give effect to or consummate the transactions contemplated by the foregoing. From and after the date of issuance of the Bonds, the District will continue to comply with the covenants of the District contained in the District Documents;

(d) The City Council, in its capacity as the City Council for the City with respect to (i) below and as the legislative body of the District with respect to (ii) and (iii) below, has duly and validly: (i) taken or caused to be taken, all proceedings necessary under the Act and the Constitution and laws of the State of California in order to form the District, to authorize the execution of the City Documents and the levy of a special tax (the "Special Tax") on the taxable property within the District pursuant to the Rate and Method of Apportionment of Special Tax for each Improvement Area approved pursuant to the Resolution of Formation (collectively, the "Rate and Method of Apportionment"), to cause the Special Tax to be secured by a continuing lien on each parcel of Taxable Property (as defined in the Rate and Method of Apportionment); (ii) authorized and approved the execution and delivery of the District Documents and the issuance and sale of the Bonds; and (iii) authorized and approved the

performance by the District of its obligations contained in, and the taking of any and all action as may be necessary to carry out, give effect to and consummate the transactions contemplated by, each of said District Documents (including, without limitation, the collection of the Special Tax). The District has been validly formed, the Special Tax has been approved and its levy authorized, and (assuming due authorization, execution and delivery by other parties thereto, where necessary) the District Documents and the Bonds will constitute the valid, legal and binding obligations of the District, and the City Documents will constitute the valid, legal and binding obligations of the City, enforceable in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization, moratorium and other laws affecting the enforcement of creditors' rights in general and to the application of equitable principles.

(e) To the best of the District's knowledge, neither the District nor the City is in breach of or default under any applicable law or administrative rule or regulation of the State of California (the "State"), or of any department, division, agency or instrumentality thereof, or under any applicable court or administrative decree or order, or under any loan agreement, note, resolution, bond indenture, contract, agreement or other instrument to which the District or the City is a party or is otherwise subject or bound, a consequence of which could be to materially and adversely affect the performance by the District of its obligations under the Bonds, the Formation Documents or the District Documents, and compliance with the provisions of each thereof, will not conflict with or constitute a breach of or default under any applicable law or administrative rule or regulation of the State, or of any department, division, agency or instrumentality thereof, or under any applicable court or administrative decree or order, or a material breach of or default under any loan agreement, note, resolution, trust agreement, contract, agreement or other instrument to which the District or the City, as the case may be, is a party or is otherwise subject or bound;

(f) Except for compliance with the blue sky or other states securities law filings, as to which the District makes no representations, all approvals, consents, authorizations, elections and orders of or filings or registrations with any State governmental authority, board, agency or commission having jurisdiction which would constitute a condition precedent to, or the absence of which would materially adversely affect, the performance by the District of its obligations hereunder, or under the Formation Documents or the District Documents, have been obtained and are in full force and effect;

(g) The Special Tax constituting the security for the Bonds has been duly and lawfully authorized and may be levied under the Act and the Constitution and the applicable laws of the State of California, and such Special Tax, when levied, will constitute a valid and legally binding continuing lien on the properties on which it has been levied, subject to the effect of bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other similar laws relating to or affecting creditors' rights generally, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against agencies in the State of California;

(h) Until the earlier of (i) the date which is twenty-five (25) days after the "end of the underwriting period" (as hereinafter defined), or (ii) 90 days after the date of Closing, if any event shall occur of which the District is aware, as a result of which it may be necessary to supplement the Official Statement in order to make the statements in the Official Statement, in

light of the circumstances existing at such time, not misleading, the District shall forthwith notify the Underwriter of any such event of which it has knowledge and shall cooperate fully in furnishing any information available to it for any supplement to the Official Statement necessary, in the Underwriter's or District's opinion, so that the statements therein as so supplemented will not be misleading in light of the circumstances existing at such time and the District shall promptly furnish to the Underwriter a reasonable number of copies of such supplement. As used herein, the term "end of the underwriting period" means the later of such time as (i) the District delivers the Bonds to the Underwriter, or (ii) the Underwriter does not retain, directly or as a member of an underwriting syndicate, an unsold balance of the Bonds for sale to the public. Unless the Underwriter gives notice to the contrary, the "end of the underwriting period" shall be deemed to be the Closing Date. Any notice delivered pursuant to this provision shall be written notice delivered to the District at or prior to the Closing Date, and shall specify a date (other than the Closing Date) to be deemed the "end of the underwriting period," and the Representative agrees to notify the District in writing of the date on which the Underwriter does not retain, directly or as a member of an underwriting syndicate, an unsold balance of the Bonds for sale to the public;

(i) The Bond Indenture creates a valid pledge of the Special Taxes and the moneys in the Special Tax Fund (other than the Administrative Expense Account) established pursuant to the Bond Indenture, including the investments thereof, subject in all cases to the provisions of the Bond Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein;

(j) Except as disclosed in the Official Statement, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body is pending or, to the best knowledge of the District, threatened (i) which would materially adversely affect the ability of either the City or the District to perform their respective obligations under the Formation Documents or the District to perform its obligations under the Bonds or the District Documents, or (ii) seeking to restrain or to enjoin the development of the land within the District, the issuance, sale or delivery of the Bonds, the application of the proceeds thereof in accordance with the Bond Indenture, or the collection or application of the Special Tax pledged or to be pledged to pay the principal of and interest on the Bonds, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the Bonds, the Formation Documents, the District Documents, or any action contemplated by any of said documents, or (iii) in any way contesting the completeness or accuracy of the Preliminary Official Statement or the powers or authority of the District with respect to the Bonds, the Formation Documents, the District Documents, or any action of the District contemplated by any of said documents; nor is there any action pending or, to the best knowledge of the District, threatened against the City or the District which alleges that interest on the Bonds is not excludable from gross income for federal income tax purposes or is not exempt from California personal income taxation;

(k) The District will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request in order for the Underwriter to qualify the Bonds for offer and sale under the "Blue Sky" or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate; provided, however, the District shall not be required to

register as a dealer or a broker of securities or to consent to service of process in connection with any blue sky filing;

(l) Any certificate signed by any authorized official of the City and the District authorized to do so shall be deemed a representation and warranty to the Underwriter as to the statements made therein;

(m) The District will apply the proceeds of the Bonds in accordance with the Bond Indenture and as described in the Official Statement;

(n) The information contained in the Preliminary Official Statement (other than information therein provided by the Developer including under the heading "THE DEVELOPMENT AND PROPERTY OWNERSHIP," information provided by David Taussig & Associates, Inc., and information in "APPENDIX G — Book-Entry Only System," as to which no view is expressed) was as of the date thereof, and the information contained in the Official Statement (other than information therein provided by the Developer under the heading "PROPERTY OWNERSHIP AND THE DEVELOPMENT," information provided by David Taussig & Associates, Inc., and information in "APPENDIX G — Book-Entry Only System," as to which no view is expressed) as of its date and on the Closing Date shall be, true and correct in all material respects and such information does not and shall not contain any untrue or misleading statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading;

(o) The Preliminary Official Statement heretofore delivered to the Underwriter was deemed final by the District as of its date, except for the omission of such information as is permitted to be omitted in accordance with paragraph (b)(1) of Rule 15c2-12. The District hereby covenants and agrees that, within seven (7) business days from the date hereof, the District shall cause a final printed form of the Official Statement to be delivered to the Underwriter in a quantity mutually agreed upon by the Underwriter and the District so that the Underwriter may comply with paragraph (b)(4) of Rule 15c2-12 and Rules G-12, G-15, G-32 and G-36 of the Municipal Securities Rulemaking Board;

(p) Except as disclosed in the Official Statement, neither the City nor the District is in default with respect to any reporting obligation that it has undertaken under Rule 15c2-12 for any indebtedness issued by it.

3. Conditions to the Obligations of the Underwriter. The obligations of the Underwriter to accept delivery of and pay for the Bonds on the Closing Date shall be subject, at the option of the Underwriter, to the accuracy in all material respects of the representations and warranties on the part of the District contained herein, as of the date hereof and as of the Closing Date, to the accuracy in all material respects of the statements of the officers and other officials of the City and the District made in any certificates or other documents furnished pursuant to the provisions hereof, to the performance by the District of its obligations to be performed hereunder at or prior to the Closing Date and to the following additional conditions:

(a) At the Closing Date, the Formation Documents, the City Documents and the District Documents shall be in full force and effect, and shall not have been amended,

modified or supplemented, except as may have been agreed to in writing by the Underwriter, and there shall have been taken in connection therewith, with the issuance of the Bonds and with the transactions contemplated thereby and by this Bond Purchase Agreement, all such actions as, in the opinion of Bond Counsel, shall be necessary and appropriate;

(b) Between the date hereof and the Closing Date, the market price or marketability of the Bonds at the initial offering prices set forth in the Official Statement shall not have been materially adversely affected, in the judgment of the Representative, after consultation with the District (evidenced by a written notice to the District terminating the obligation of the Underwriter to accept delivery of and pay for the Bonds), by reason of any of the following:

(1) legislation introduced in or enacted (or resolution passed) by the Congress of the United States of America or recommended to the Congress by the President of the United States, the Department of the Treasury, the Internal Revenue Service, or any member of Congress, or favorably reported for passage to either House of Congress by any committee of such House to which such legislation had been referred for consideration or a decision rendered by a court established under Article III of the Constitution of the United States of America or by the Tax Court of the United States of America, or an order, ruling, regulation (final, temporary or proposed), press release or other form of notice issued or made by or on behalf of the Treasury Department or the Internal Revenue Service of the United States of America, with the purpose or effect, directly or indirectly, of imposing federal income taxation upon the interest as would be received by the holders of the Bonds beyond the extent to which such interest is subject to taxation as of the date hereof;

(2) legislation introduced in or enacted (or resolution passed) by the Congress of the United States of America, or an order, decree or injunction issued by any court of competent jurisdiction, or an order, ruling, regulation (final, temporary or proposed), press release or other form of notice issued or made by or on behalf of the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, to the effect that obligations of the general character of the Bonds, or the Bonds, including any or all underlying arrangements, are not exempt from registration under or other requirements of the Securities Act of 1933, as amended, or that the Bond Indenture is not exempt from qualification under or other requirements of the Trust Indenture Act of 1939, as amended, or that the issuance, offering or sale of obligations of the general character of the Bonds, or of the Bonds, including any or all underwriting arrangements, as contemplated hereby or by the Official Statement or otherwise is or would be in violation of the federal securities laws, rules or regulations as amended and then in effect;

(3) any amendment to the federal or California Constitution or action by any federal or California court, legislative body, regulatory body or other authority materially adversely affecting the tax status of the District, its property, income, securities (or interest thereon), the validity or enforceability of the Special Tax or the ability of the City or the District to construct or acquire the improvements as contemplated by the Formation Documents, the City Documents, the District Documents or the Official Statement;

(4) any event occurring, or information becoming known, which, in the judgment of the Representative, makes untrue in any material respect any statement or information contained in the Official Statement, or results in the Official Statement containing any untrue statement of a material fact or omitting to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading;

(5) the declaration of war or the escalation of, or engagement in, military hostilities by the United States or the occurrence of any other national or international emergency or calamity relating to the effective operation of the government of, or the financial community in, the United States;

(6) the declaration of a general banking moratorium by federal, State of New York or State of California authorities, or the general suspension of trading on any national securities exchange;

(7) the imposition by the New York Stock Exchange or other national securities exchange, or any governmental authority, of any material restrictions not now in force with respect to the Bonds or obligations of the general character of the Bonds or securities generally, or the material increase of any such restrictions now in force, including those relating to the extension of credit by, or the charge to the net capital requirements of, the Underwriter;

(8) Any amendment is made to the Official Statement that in the Representative's reasonable judgment will materially adversely affect the marketability of the Bonds or the ability of the Underwriter to enforce contracts for the sale of the Bonds.

(c) On the Closing Date, the Representative shall have received counterpart originals or certified copies of the following documents, in each case satisfactory in form and substance to the Underwriter:

(1) the Formation Documents, the City Documents and the District Documents, together with a certificate dated as of the Closing Date of the Clerk of the City Council to the effect that each Formation Document is a true, correct and complete copy of the one duly adopted by the City Council;

(2) the Preliminary Official Statement and the Official Statement;

(3) an opinion of Bond Counsel, dated the Closing Date and addressed to the City, in the form attached to the Preliminary Official Statement as APPENDIX F, and an unqualified opinion of such counsel, dated the Closing Date and addressed to the Underwriter, to the effect that such approving opinion addressed to the District may be relied upon by the Underwriter to the same extent as if such opinion was addressed to it;

(4) a supplemental opinion, dated the Closing Date and addressed to the Underwriter, of Bond Counsel, to the effect that (i) this Bond Purchase Agreement has been duly authorized, executed and delivered by the District and, assuming such agreement constitutes a valid and binding obligation of the other parties thereto, constitutes the legally valid and binding agreement of the District enforceable in accordance with its terms, except as

enforcement may be limited by bankruptcy, moratorium, insolvency or other laws affecting creditor's rights or remedies and is subject to general principles of equity (regardless of whether such enforceability is considered in equity or at law); (ii) the Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Bond Indenture is exempt from qualification under the Trust Indenture Act of 1939, as amended; and (iii) the information contained in the Official Statement on the cover and under the captions "INTRODUCTION," "THE 2008 BONDS," "SOURCES OF PAYMENT FOR THE BONDS," "LEGAL MATTERS – Tax Exemption" and APPENDICES C and F thereof, insofar as it purports to summarize certain provisions of the Act, the Bonds and the Bond Indenture and such counsel's opinion as to the exclusion from gross income for federal income tax purposes and exemption from State of California personal income taxes of interest on the Bonds, present a fair and accurate summary of such provisions;

(5) a letter from Stradling Yocca Carlson & Rauth, a Professional Corporation, as Disclosure Counsel ("Disclosure Counsel"), to the Underwriter, to the effect that, without having undertaken to determine independently the accuracy or completeness of the statements contained in the Official Statement, no facts have come to the attention of the attorneys in the firm rendering legal services in connection with the issuance of the Bonds that have caused them to believe that the Official Statement as of its date contained, or as of the Closing Date contains, any untrue statement of a material fact, or as of its date omitted, or as of the Closing Date omits, to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (except that the firm expresses no view with respect to any information concerning The Depository Trust Company, or the book-entry system, or with respect to any financial, statistical, economic or demographic data or revenue or other forecasts, projections, numbers, estimates, tables, assumptions, appraisals, assessed valuations or assumptions or expressions of opinion contained in the Official Statement, or with respect to any of the appendices thereto).

(6) a certificate, dated the Closing Date and signed by an authorized representative of the District, ratifying the use and distribution by the Underwriter of the Preliminary Official Statement and the Official Statement in connection with the offering and sale of the Bonds; and certifying that (i) the representations and warranties of the District contained in Section 2 hereof are true and correct in all material respects on and as of the Closing Date with the same effect as if made on the Closing Date; (ii) to the best of his or her knowledge, no event has occurred since the date of the Official Statement affecting the matters contained therein which should be disclosed in the Official Statement for the purposes for which it is to be used in order to make the statements and information contained in the Official Statement not misleading in any material respect, and the Bonds, the Formation Documents and the District Documents conform as to form and tenor to the descriptions thereof contained in the Official Statement; and (iii) the District has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied under the Formation Documents, the District Documents and the Official Statement at or prior to the Closing Date;

(7) a certificate, dated the Closing Date and signed by an authorized representative of the City, certifying (a) that except as disclosed in the Official Statement, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, as to which the City has been served with notice, is

pending or, to the knowledge of the City, threatened against the City (i) which would materially adversely affect the ability of the City to perform its obligations under the City Documents; (ii) seeking to restrain or to enjoin: (A) the development of any of the land within the District, (B) the issuance, sale or delivery of the Bonds, (C) the application of the proceeds thereof in accordance with the Purchase and Finance Agreement, or (D) the collection or application of the Special Taxes, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the City Documents, any tentative or final subdivision map or building permits applicable to property within the District, any other instruments relating to the development of any of the property within the District, or any action contemplated by any of said documents; or (iii) in any way contesting the powers or authority of the City with respect to the City Documents, or any action of the City contemplated by any of said documents; nor is there any action pending or, to the knowledge of the City, threatened against the City or the District which alleges that interest on the Bonds is not excludable from gross income for federal income tax purposes or is not exempt from California personal income taxation; and (b) the City will apply Bond proceeds in compliance with the Purchase and Finance Agreement;

(8) a certificate, dated the Closing Date and signed by an authorized representative of the Agency, certifying that, except as disclosed in the Official Statement, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body is pending or, to the knowledge of the Agency, threatened against the Agency, which action, suit, proceeding, inquiry or investigation would materially adversely affect the ability of the Agency to perform its obligations under the Agency Documents (as defined in subsection (10) below);

(9) an opinion of the City Attorney, as counsel to the District, dated the Closing Date and addressed to the Underwriter and the District, to the effect that (i) the City is duly organized and validly existing under the Constitution and laws of the State as a charter city and municipal corporation; (ii) the District has full legal right, power, and authority to execute and deliver the District Documents; (iii) the District Documents have been duly authorized, executed, and delivered by the District and, assuming due authorization and execution by any other applicable parties thereto, the District Documents constitute the valid and binding obligations of the District, enforceable in accordance with their respective terms, subject to laws relating to bankruptcy, insolvency, or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought; (iv) the City Council adopted the resolutions and ordinances forming the District, confirming the Special Taxes, approving the District Documents and the City Documents and authorizing the sale and issuance of the Bonds at meetings of the City Council which were called, held and conducted pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and such resolutions and ordinances are now in full force and effect and have not been amended, modified or rescinded; (v) to the best of such counsel's knowledge, after due inquiry, there are no actions, suits, proceedings, inquiries, or investigations, at law or in equity, before or by any court, governmental agency, public board, or body, pending or threatened against the City or the District, for which the City or the District has been served, to restrain or enjoin the issuance of the Bonds, the collection or application of the Special Taxes, or the payment of principal of and interest on the Bonds, or in any way contesting the validity of the formation of the District, the Bonds, the District Documents or the City Documents; (vi) the execution and delivery of the District Documents and the City Documents, and compliance with

the provisions thereof and hereof, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the City or the District a breach of or default under any agreement or other instrument to which either is a party or by which either is bound or any existing law, regulation, court order or consent decree to which either is subject; and (vii) the Special Taxes constituting the security for the Bonds have been duly and lawfully levied under and pursuant to the Act and constitute valid and legally binding liens on the properties on which they have been levied, subject to the effect of bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other similar laws relating to or affecting creditors' rights generally, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against agencies in the State of California;

(10) an opinion, dated the Closing Date and addressed to the District and the Underwriter, of counsel to the Agency, to the effect that the Disposition and Development Agreement, dated June 26, 2000 (the "DDA"), between the Developer and the Agency, the First Implementation Agreement, dated as of May 9, 2002, the Second Implementation Agreement dated May 21, 2002, and the Third Implementation Agreement dated July 15, 2003 (collectively, the "Implementation Agreement") between the Agency and the Developer and the Cooperation Agreement (collectively, the "Agency Documents") have been duly authorized, executed, and delivered by the Agency and, assuming due authorization and execution by any other applicable parties thereto, constitute the valid and binding obligations of the Agency, enforceable in accordance with their respective terms, subject to laws relating to bankruptcy, insolvency, or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought;

(11) an opinion, dated the Closing Date and addressed to the Underwriter, of the City Attorney, as counsel to the City, to the effect that the City Documents have been duly authorized, executed, and delivered by the City and, assuming due authorization and execution by any other applicable parties thereto, constitute the valid and binding obligations of the City, enforceable in accordance with their respective terms, subject to laws relating to bankruptcy, insolvency, or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought;

(12) a certificate dated the Closing Date from David Taussig & Associates, Inc. addressed to City, the District and the Underwriter to the effect that (i) the Special Tax if collected in the maximum amounts permitted pursuant to the Rate and Method of Apportionment of Special Taxes as of the Closing Date would generate at least 110% of the sum of the maximum annual debt service payable on the Bonds and the 2006 Bonds, plus the Administrative Expenses Cap, based on such assumptions and qualifications as shall be acceptable to the Underwriter, and (ii) all information supplied by it for use in the Official Statement is true and correct as of the date of the Official Statement and as of the Closing Date;

(13) A certificate of the District dated the Closing Date, in a form acceptable to Bond Counsel, that the Bonds are not arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended;

(14) A certificate of the Trustee and an opinion of counsel to the Trustee dated the Closing Date and addressed to the City, the District and the Underwriter to the effect that it has duly authorized the execution and delivery of the Bond Indenture and the Developer continuing Disclosure Agreement (defined below) and that each such document is a valid and binding obligation of the Trustee enforceable in accordance with its terms;

(15) A fully executed and delivered Continuing Disclosure Agreement, dated as of March 1, 2008, by and between the Developer and Wells Fargo Bank, National Association, as dissemination agent (the "Developer Continuing Disclosure Agreement"), substantially in the form attached as APPENDIX E to the Official Statement;

(16) A certificate executed by an authorized officer of the Developer, dated the Closing Date and addressed to the Underwriter, the District and the City, in substantially the form attached hereto as Exhibit C-1 (except that all references therein to the Preliminary Official Statement shall be changed to the Official Statement), with only such changes therein as shall have been accepted by the Underwriter;

(17) a certificate of McMillin-NTC 193, LLC, McMillin-NTC Landing, LLC, Liberty Station-Harbor Retail, LLC, Liberty Station 210 Investors, LLC, Liberty Station 195 Historical Rehab, , McMillin-NTC 901, LLC, McMillin-NTC 903/904, LLC, McMillin-NTC 905, LLC and McMillin-NTC 906, LLC,, each a Delaware limited liability company (each, a "McMillin Entity" and collectively, the "McMillin Entities"), dated the Closing Date, in substantially the form attached hereto as Exhibit C-2;

(18) a letter or letters of Hewitt & O'Neil, LLP, special counsel to the Developer and the McMillin Entities, and/or other counsel to the Developer and the McMillin Entities, dated the date of the Closing and addressed to the District, the City and the Underwriter, in form and substance acceptable to the District, the City, the Underwriter and it's counsel, to the effect that (i) the Developer and each of the McMillin Entities is a Delaware limited liability company, duly formed, validly existing and in good standing as a limited liability company under the laws of the State of Delaware, and is authorized to transact business and is in good standing in the State of California; (ii) each of the McMillin Entities has the limited liability company power to own and develop its properties in the District as described in the Official Statement; (iii) the Developer has the limited liability company power to enter into and perform its obligations under the Developer Continuing Disclosure Agreement, the Purchase and Finance Agreement and the DDA, (iv) the execution, delivery and performance of the Developer Continuing Disclosure Agreement, the Purchase and Finance Agreement and the DDA have been duly authorized by all necessary limited liability company action on the part of the Developer, and the Developer Continuing Disclosure Agreement, the Purchase and Finance Agreement and the DDA have been executed and delivered by the Developer and, assuming due authorization, execution and delivery by the other parties thereto, constitute the legally valid and binding obligations of the Developer, enforceable against the Developer in accordance with their respective terms; (v) the execution and delivery of the Certificate attached hereto as Exhibit B and performance of the indemnification provisions set forth in such Certificate (the "Indemnity Agreement") by the Developer and each of the McMillin Entities has been duly authorized by all necessary limited liability company action on the part of the Developer and such McMillin Entity and each Indemnity Agreement has been executed and delivered by the Developer or the

applicable McMillin Entity and constitutes the legally valid and binding obligation of the Developer or such McMillin Entity, as applicable; (vi) to counsel's actual knowledge, neither the Developer nor the McMillin Entities are in violation of any provision of, or in default under its organizational documents (the "Organization Documents"), the violation of or default under which would materially and adversely affect the ability of the McMillin Entities to complete the proposed Developments; and (vii) to counsel's actual knowledge, without conducting any independent investigation or inquiry of parties other than the Developer or the McMillin Entities, or investigation other than conducting litigation searches over the Internet of the Superior Court records of the County of San Diego and the United States District Court and Bankruptcy Court records of the Southern District of California, there are no legal or governmental actions, proceedings, inquiries or investigations pending or threatened by governmental authorities or to which the Developer or a McMillin Entity is a party, which, if determined adversely to such entity, would, individually or in the aggregate (x) have a material adverse effect on the financial position or results of operations of the Developer or such McMillin Entity, (y) otherwise materially or adversely affect the ability of the Developer to comply with its obligations under the Developer Continuing Disclosure Agreement, the Indemnity Agreement, the Purchase and Finance Agreement or the DDA, or of any McMillin Entity to comply with its obligations under its Indemnity Agreement or (z) which would materially and adversely affect the ability of the Developer or a McMillin Entity to pay Special Taxes due with respect to its property in the District or of the McMillin Entities to complete the proposed Developments;

(19) The Mortgage Study dated February 7, 2008 by Empire Economics, LLC ("Empire"), together with a certificate dated the Closing Date signed by Empire, in form acceptable to the District and the Underwriter.

(20) Such additional legal opinions, certificates, instruments and other documents as the Underwriter may reasonably request to evidence the truth and accuracy, as of the date hereof and as of the Closing Date, of the statements and information contained in the Preliminary Official Statement and the Official Statement, of the District's representations and warranties contained herein and the due performance or satisfaction by the District at or prior to the Closing of all agreements then to be performed and all conditions then to be satisfied by the District in connection with the transactions contemplated hereby and by the Official Statement.

If the District shall be unable to satisfy the conditions to the obligations of the Underwriter to purchase, accept delivery of and pay for the Bonds contained in this Bond Purchase Agreement, or if the obligations of the Underwriter to purchase, accept delivery of and pay for the Bonds shall be terminated for any reason permitted by this Bond Purchase Agreement, this Bond Purchase Agreement shall terminate and neither the Underwriter nor the District shall be under any further obligation hereunder, except that the respective obligations of the District and the Underwriter set forth in Section 5 and Section 6 hereof shall continue in full force and effect.

4. Conditions of the District's Obligations. The District's obligations hereunder are subject to the Underwriter's performance of its obligations hereunder, and are also subject to the following conditions:

(a) As of the Closing Date, no litigation shall be pending or, to the knowledge of the duly authorized officer of the District executing the certificate referred to in Section 3(c)(6) hereof, threatened, to restrain or enjoin the issuance or sale of the Bonds or in any way affecting any authority for or the validity of the Bonds, the Formation Documents, the City Documents, the District Documents or the existence or powers of the City or the District; and

(b) As of the Closing Date, the District shall receive the opinions of Bond Counsel and Disclosure Counsel referred to in Section 3(c)(3) and (5) hereof.

5. Expenses. Whether or not the Bonds are delivered to the Underwriter as set forth herein:

(a) The Underwriter shall be under no obligation to pay, and the District shall pay or cause to be paid (out of any legally available funds of the District) any expenses incident to the performance of the District's obligations hereunder, including, but not limited to, the cost of printing and delivering the Bonds to the Underwriter, the cost of preparation, printing, distribution and delivery of the Bond Indenture, the Preliminary Official Statement, the Official Statement and all other agreements and documents contemplated hereby (and drafts of any thereof) in such reasonable quantities as requested by the Underwriter; and any fees and disbursements of the Trustee for the Bonds then due, Bond Counsel, Disclosure Counsel, counsel to the City and District, and any accountants, engineers or any other experts or consultants the District or the City has retained in connection with the Bonds; and

(b) The District shall be under no obligation to pay, and the Underwriter shall pay, any fees of the California Debt and Investment Advisory Commission, the cost of preparation of any "blue sky" or legal investment memoranda and this Bond Purchase Agreement; expenses to qualify the Bonds for sale under any "blue sky" or other state securities laws; and all other expenses incurred by the Underwriter in connection with its public offering and distribution of the Bonds (except those specifically enumerated in paragraph (a) of this section), including the fees and disbursements of its counsel and any advertising expenses.

6. Notices. Any notice or other communication to be given to the City under this Bond Purchase Agreement may be given by delivering the same in writing to the City at the address set forth above; and any notice or other communication to be given to the Underwriter under this Bond Purchase Agreement may be given by delivering the same in writing to Stone & Youngberg, LLC, 4350 La Jolla Drive, Suite 140, San Diego, CA 92122, Attention: William Huck.

7. Parties in Interest. This Bond Purchase Agreement is made solely for the benefit of the District and the Underwriter (including their successors or assigns), and no other person shall acquire or have any right hereunder or by virtue hereof.

8. Survival of Representations and Warranties. The representations and warranties of the District and the City set forth in or made pursuant to this Bond Purchase Agreement and any certificates delivered hereunder shall not be deemed to have been discharged, satisfied or otherwise rendered void by reason of the Closing or termination of this Bond Purchase Agreement and regardless of any investigations made by or on behalf of the Underwriter (or statements as to the results of such investigations) concerning such representations and statements of the District and the City and regardless of delivery of and payment for the Bonds.

9. Effective. This Bond Purchase Agreement shall become effective and binding upon the respective parties hereto upon the execution of the acceptance hereof by the District and shall be valid and enforceable as of the time of such acceptance.

10. No Prior Agreements. This Purchase Agreement supersedes and replaces all prior negotiations, agreements and understandings between the parties hereto in relation to the sale of Bonds for the District.

11. Governing Law. This Bond Purchase Agreement shall be governed by the laws of the State of California.

12. Counterparts. This Bond Purchase Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute one and the same instrument.

Very truly yours,

STONE & YOUNGBERG LLC, as Representative
of the Underwriter

By: _____
Title: _____

ACCEPTED:

COMMUNITY FACILITIES DISTRICT NO. 3
(LIBERTY STATION)

By: _____
District Representative

APPROVED AS TO FORM:

Michael J. Aquirre, San Diego City Attorney

By: _____
Chief Deputy City Attorney

000886

EXHIBIT A
MATURITY SCHEDULE

Maturity Date <u>(September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	Price or <u>Yield</u>
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EXHIBIT B**FORM OF DEVELOPER
CERTIFICATE AS TO NEAR FINALITY
OF THE PRELIMINARY OFFICIAL STATEMENT**

The undersigned hereby certifies to the City, the Agency, the District and the Underwriter that he/she is a duly appointed and acting officer of McMillin-NTC, LLC, a Delaware limited liability company (the "Developer"), and is authorized to execute and deliver this certificate, and further hereby certifies as follows:

1. The Developer or its Affiliates (as defined in the Developer Continuing Disclosure Agreement, dated as of March 1, 2008, between the Developer and Wells Fargo Bank, National Association) control (either by fee ownership or 66-year ground lease) approximately 63 acres in Improvement Area No. 2 of Community Facilities District No. 3 (Liberty Station) (the "District"), as described in the Preliminary Official Statement dated _____, 2008 (the "Preliminary Official Statement") in connection with the offering and sale of the \$_____ Community Facilities District No. 3 (Liberty Station) Special Tax Bonds Series A of 2008 (the "Bonds").

2. The Developer covenants that, while the Bonds are outstanding, the Developer will not bring any action, suit, proceeding, inquiry or investigation at law or in equity, before any court, regulatory agency, public board or body which in any way seeks to challenge or overturn the formation or operation of the District in accordance with the District Resolutions and applicable law, to challenge the levy of the Special Tax in accordance with the terms of the District Resolutions and applicable law, or to challenge the validity of the Bonds or the proceedings leading up to their issuance. The foregoing covenant shall not prevent the Developer from bringing an action, suit or proceeding contending that the Special Tax has not been levied in accordance with the methodology contained in the Rate and Method of Apportionment of Special Taxes for the District previously adopted by the City Council of the City of San Diego (the "City").

3. Any and all information submitted in writing by the Developer to the District or Stone & Youngberg, LLC, as representative of the underwriters (collectively, the "Underwriter") in connection with the preparation of the Preliminary Official Statement was, as of the date thereof, or as updated and/or corrected subsequent to the date thereof, and is as of the date hereof and as updated or corrected, to the best of the Developer's knowledge, true and correct, and any and all information submitted in writing by the Developer to the Special Tax Consultant and Empire Economics, Inc. was, as of the date thereof, or as updated and/or corrected subsequent to the date thereof, and is as of the date hereof and as updated or corrected, to the best of Developer's knowledge, true and correct.

4. The statements relating to the Developer, its proposed development in the District, its property ownership and its contractual arrangements, if any, contained in the Preliminary Official Statement under the captions entitled "THE DEVELOPMENT AND PROPERTY OWNERSHIP" and "CONTINUING DISCLOSURE," and under the subcaption

entitled "SPECIAL RISK FACTORS, - Hazardous Substances," do not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

5. No proceedings have been filed and served or to the Developer's actual knowledge, after due inquiry, are pending (based on service of process) or threatened in which the Developer or its Affiliates may be adjudicated as bankrupt or discharged from any or all of its debts and obligations or granted an extension of time to pay its debts or a reorganization or readjustment of its debts. The Developer and its Affiliates have no current intention of filing for bankruptcy. The Developer has never filed bankruptcy or been declared bankrupt.

6. Except as disclosed in the Preliminary Official Statement, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, has been filed and served or is pending (based on service of process) or, to the Developer's actual knowledge, threatened, in any way seeking to restrain or enjoin the development of the property controlled by the Developer or its Affiliates in the District.

7. Except as disclosed in the Preliminary Official Statement, there are no events of monetary default by the Developer or any of its Affiliates or events which with the passage of time would constitute a monetary default by the Developer under any loan or similar credit arrangement to which the Developer is a party or to which any of its properties are subject and which would materially, adversely affect the Developer's ability to develop its property in the District or to pay special taxes for which it is responsible. Except as disclosed in the Preliminary Official Statement, neither the Developer nor, to its actual knowledge, any entity in which it has a controlling ownership interest, is in payment default on any loans, lines of credit or other obligation to repay borrowed money related to its development in the District, or its other projects, which payment default would in any way materially and adversely affect the ability of the Developer or any Affiliate to develop its property in the District.

8. Except as disclosed in the Preliminary Official Statement, to the actual knowledge of the Developer, no other public debt secured by a tax or assessment on the land owned or controlled by the Developer or any Affiliate in the District is in the process of being authorized and no assessment districts or community facilities districts have been or are in the process of being formed which include any portion of such land.

9. Except as disclosed in the Preliminary Official Statement, to the actual knowledge of the Developer, neither it nor any of the Affiliates has ever been delinquent in the payment of any ad valorem property tax, special assessment or special taxes on property included within the boundaries of (i) one of its residential or commercial developments, (ii) a community facilities district, or (iii) an assessment district, that was not cured either within the fiscal year in which the tax or assessment was levied.

10. Except as disclosed in the Preliminary Official Statement, the Developer is not aware of any endangered species or hazardous substances located on the property controlled by it or any Affiliate within the District.

11. Neither the Developer nor any Affiliate has ever failed to comply in all material respects with any previous undertakings imposed upon the Developer or any such Affiliate to provide disclosure reports or notices of material events pursuant to Rule 15c2-12 of the Securities and Exchange Commission.

Except as otherwise defined herein, all capitalized terms shall have the meaning assigned to those terms in the Preliminary Official Statement.

[DEVELOPER SIGNATURE BLOCK]

EXHIBIT C-1**COMMUNITY FACILITIES DISTRICT NO. 3
(LIBERTY STATION)
SPECIAL TAX BONDS
SERIES A OF 2008****DEVELOPER CLOSING CERTIFICATE**

In connection with the issuance and sale of the Community Facilities District No. 3 (Liberty Station) Special Tax Bonds Series A of 2008 (the "Bonds"), and pursuant to the Bond Purchase Agreement, dated _____, 2008, by and between Community Facilities District No. 3 (Liberty Station) (the "District") and Stone & Youngberg LLC, as Representative of the Underwriter named therein (the "Bond Purchase Agreement"), the undersigned hereby certifies, represents, warrants and covenants to and for the benefit of the City, the Agency, the District and the Underwriter, on behalf of McMillin-NTC, LLC, a Delaware limited liability company (the "Developer") that:

1. The undersigned is, and at all pertinent times mentioned herein has been, an authorized representative of the Developer, and is authorized to make this certification on behalf of the Developer.
2. Capitalized terms that are not defined herein shall have the meanings ascribed to them in the Bond Purchase Agreement.
3. The Developer is a duly organized and validly existing limited liability company in good standing under the laws of the State of Delaware.
4. The Developer has full limited liability company power and authority to execute, deliver, and perform its obligations under the Purchase and Finance Agreement, between the Developer and the City of San Diego (the "City"), the Disposition and Development Agreement, between the Developer and the Redevelopment Agency of the City of San Diego (the "Agency"), the Implementation Agreement between the Agency and the Developer, and the Developer Continuing Disclosure Agreement, dated as of March 1, 2008, between the Developer and Wells Fargo Bank, National Association, as dissemination agent (the "Developer Continuing Disclosure Agreement") (collectively, the "Developer Documents"). Each Developer Document and this Certificate has been duly authorized, executed, and delivered by the Developer, and, assuming due authorization, execution and delivery by the other parties thereto, as applicable, constitutes a legal, valid, and binding obligation of the Developer, enforceable against the Developer in accordance with its respective terms, subject to laws relating to bankruptcy, insolvency, or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought.
5. We have received a copy of the Official Statement and have reviewed the contents thereof. We have reviewed the contents of this Certificate and have

conferred with our counsel for the purpose of discussing the meaning of its contents.

6. All information concerning the Developer and the property within the District currently owned by the Developer, submitted in writing by, or on behalf of, the Developer to the Underwriter, and to the Special Tax Consultant in connection with the Rate and Method of Apportionment, was, to the best of our knowledge, true, complete, and correct at the time given, or as updated or modified as of the date hereof.
7. The statements relating to the Developer, its proposed development in the District, its property ownership and its contractual arrangements, if any, contained in the Preliminary Official Statement under the captions entitled "THE DEVELOPMENT AND PROPERTY OWNERSHIP" and "CONTINUING DISCLOSURE" and under the subcaption entitled "SPECIAL RISK FACTORS, - Hazardous Substances" do not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.
8. No proceedings are pending (with proper service of process having been accomplished) or, to the actual knowledge of the undersigned, after due inquiry, threatened in which the Developer may be adjudicated as bankrupt or discharged from any and all of its debts or obligations or granted an extension of time to pay its debts or a reorganization or readjustment of the debts.
9. No action, suit, proceeding, inquiry, or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, is pending (based upon proper service of process having been accomplished) or, to the actual knowledge of the undersigned, after due inquiry, threatened in any way seeking to restrain or to enjoin the development of the property within the District owned by the Developer.
10. In consideration of the issuance of the Bonds by the District, the Developer agrees to indemnify and hold harmless, to the extent permitted by law, the City, the Agency and the District and their officers, employees and agents (each, an "Indemnified Party") against any and all judgments, losses, claims, damages, liabilities and expenses (i) arising out of any statement or information provided in the portions of the Official Statement specified in Paragraph 7 above relating to the Developer, the property within the District currently owned by the Developer and the development thereof, that is or is alleged to be untrue or incorrect in any material respect or the omission or alleged omission therefrom of any statement or information that should be stated therein, or that is necessary, to make the statements therein not misleading in any material respect; and (ii) to the extent of the aggregate amount paid in settlement of any litigation commenced or threatened arising from a claim based upon any such untrue statement or omission if such settlement is effected with the written consent of the Developer. In case

any claim shall be made or action brought against an Indemnified Party based upon information in the Official Statement for which indemnity is applicable against the Developer, as provided above, the Indemnified Party shall promptly notify the Developer in writing setting forth the particulars of such claim or action and the Developer shall assume the defense thereof, including the retaining of counsel reasonably acceptable to the Indemnified Party and the payment of all reasonable legal expenses. Notwithstanding the Developer's election to appoint counsel to represent the Indemnified Party in any such action, the Indemnified Party shall have the right to employ separate counsel (including local counsel), and the Developer shall bear the reasonable fees, costs and expenses of such separate counsel if (i) the use of counsel chosen by the Developer to represent the Indemnified Party would present such counsel with a conflict of interest; (ii) the actual or potential defendants in, or targets of, any such action include both the Indemnified Party and the Developer, and the Indemnified Party shall have reasonably concluded that there may be legal defenses available to it and/or other indemnified parties which are materially different from or additional to those available to the Developer; (iii) the Developer shall not have employed counsel reasonably satisfactory to the Indemnified Party to represent the Indemnified Party within a reasonable time after notice of the institution of such action; or (iv) the Developer shall authorize the Indemnified Party to employ separate counsel at the expense of the Developer. The Developer will not, without the prior written consent of the applicable Indemnified Parties, settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the Indemnified Party is an actual or potential party to such claim or action) unless such settlement, compromise or consent includes an unconditional release of the Indemnified Party from all liability arising out of such claim, action, suit or proceeding.

11. Promptly after receipt by any Indemnified Party of notice of any complaint or the commencement of any action or proceeding in connection with any matter for which the Developer is obligated to indemnify an Indemnified Party as set forth in the preceding paragraph, the Indemnified Party shall notify the Developer in writing of such complaint or of the commencement of such action or proceeding and, if the Developer so elects or is requested by the Indemnified Party, the Developer shall assume the defense of such action or proceeding, including the employment of counsel reasonably satisfactory to the Indemnified Party and the payment of the reasonable fees and disbursements of such counsel, in which event, under the circumstances described in paragraph 10 above, the Developer shall not be obligated to pay the reasonable fees and disbursements of separate counsel for the Indemnified Party in such action. Each Indemnified Party is a third party beneficiary of the agreement by the Developer to indemnify and hold harmless the Indemnified Parties as set forth in this paragraph 11 and the preceding paragraph 10 and shall have the same right to enforce the contractual promises of the Developer herein to provide such indemnity.

12. The Developer is fully qualified by all necessary permits, licenses, and certifications, to conduct its business as presently being conducted and, except for such licenses, certificates, approvals, variances, and permits which may be necessary for the construction of improvements within the District or have already been obtained and are in full force and effect, there is no license, consent, approval, authorization, or other order of, or filing with, or certification by, any regulatory authority having jurisdiction over the Developer necessary for the Developer to complete its planned development of property within the District as contemplated by the DDA.
13. To the best knowledge of the undersigned, based upon due inquiry, the Developer is not in violation of any provision of, or in default under, its operating agreement or any other material agreement, lease, or other contract to which the Developer is a party or by which its properties are bound, the violation of or default under which would materially and adversely affect the business, properties, assets, liabilities, or conditions (financial or other) of the Developer.
14. The Developer has never failed to comply in all material respects with an obligation to file an annual disclosure report with the appropriate information repositories as required under Securities and Exchange Commission Rule 15c-12.
15. Other than as set forth in the Official Statement, to the actual knowledge of the Developer, (i) no public debt secured by a special tax or assessment on the land in the District owned or controlled by the Developer exists or is in the process of being authorized; and (ii) no other assessment district or community facilities district exists or is in the process of being formed, in each case which would include any portion of the land within the District owned or controlled by the Developer.
16. None of the parcels of land within the District owned by the Developer is delinquent in the payment of any taxes or assessments.
17. The execution and delivery by the Developer of the Developers Documents and this Certificate and the performance by the Developer of its obligations thereunder and hereunder do not and will not result in violation of any provision of, or in default under, the Developer's operating agreement or any other material agreement, lease, or other contract to which the Developer is a party or by which its properties are bound.

Dated:

[THE DEVELOPER SIGNATURE BLOCK]

EXHIBIT C-2
COMMUNITY FACILITIES DISTRICT NO. 3
(LIBERTY STATION)
SPECIAL TAX BONDS
SERIES A OF 2008

CERTIFICATE OF [MCMILLIN ENTITY]

In connection with the issuance and sale of the above-captioned bonds, and pursuant to the Bond Purchase Agreement, dated _____, 2008, by and between Community Facilities District No. 3 (Liberty Station) (the "District") and Stone & Youngberg LLC, as Representative of the Underwriter named therein (the "Bond Purchase Agreement"), the undersigned hereby certifies, represents, warrants and covenants to and for the benefit of the City, the Agency, the District and the Underwriter, on behalf of [McMillin NTC _____, LLC] a Delaware limited liability company (the "McMillin Entity") that:

1. The undersigned is, and at all pertinent times mentioned herein has been, an authorized representative of the McMillin Entity, and is authorized to make this certification on behalf of the McMillin Entity.
2. Capitalized terms that are not defined herein shall have the meanings ascribed to them in the Bond Purchase Agreement.
3. The McMillin Entity is a duly organized and validly existing limited liability company in good standing under the laws of the State of Delaware.
4. The McMillin Entity has full limited liability company power and authority to execute, deliver, and perform its obligations under this Certificate. This Certificate has been duly authorized, executed, and delivered by the McMillin Entity, and constitutes a legal, valid, and binding obligation of the McMillin Entity, enforceable against the McMillin Entity in accordance with its terms, subject to laws relating to bankruptcy, insolvency, or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought.
5. We have received a copy of the Official Statement and have reviewed the contents thereof. We have reviewed the contents of this Certificate and have conferred with our counsel for the purpose of discussing the meaning of its contents.
6. All information concerning the McMillin Entity, and the property within the District currently owned by the McMillin Entity, submitted in writing by, or on behalf of, the McMillin Entity to the District, the Underwriter and the Special Tax Consultant in connection with the Rate and Method of Apportionment, was, to the best of our knowledge, true, complete, and correct at the time given, or as updated or modified as of the date hereof.
7. The statements relating to the McMillin Entity and the ownership of the property within the District currently owned by the McMillin Entity, contained in the Official

Statement under the caption entitled "THE DEVELOPMENT AND PROPERTY OWNERSHIP" do not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

8. No proceedings are pending (with proper service of process having been accomplished) or, to the actual knowledge of the undersigned, after due inquiry, threatened in which the McMillin Entity may be adjudicated as bankrupt or discharged from any and all of its debts or obligations or granted an extension of time to pay its debts or a reorganization or readjustment of the debts.
9. No action, suit, proceeding, inquiry, or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, is pending (based upon proper service of process having been accomplished) or, to the actual knowledge of the undersigned, after due inquiry, threatened in any way seeking to restrain or to enjoin the development of the property within the District owned or controlled by the McMillin Entity.
10. In consideration of the issuance of the Bonds by the District, the McMillin Entity agrees to indemnify and hold harmless, to the extent permitted by law, the City, the Agency and the District and their officers, employees and agents (each, an "Indemnified Party") against any and all judgments, losses, claims, damages, liabilities and expenses (i) arising out of any statement or information in the portions of the Official Statement specified in Paragraph 7 above, relating to the McMillin Entity, the property within the District currently owned by the McMillin Entity and the development thereof, that is or is alleged to be untrue or incorrect in any material respect or the omission or alleged omission therefrom of any statement or information that should be stated therein, or that is necessary, to make the statements therein not misleading in any material respect; and (ii) to the extent of the aggregate amount paid in settlement of any litigation commenced or threatened arising from a claim based upon any such untrue statement or omission if such settlement is effected with the written consent of the McMillin Entity. In case any claim shall be made or action brought against an Indemnified Party based upon information in the Official Statement for which indemnity is applicable against the McMillin Entity, as provided above, the Indemnified Party shall promptly notify the McMillin Entity in writing setting forth the particulars of such claim or action and the McMillin Entity shall assume the defense thereof, including the retaining of counsel reasonably acceptable to the Indemnified Party and the payment of all reasonable legal expenses. Notwithstanding the McMillin Entity's election to appoint counsel to represent the Indemnified Party in any such action, the Indemnified Party shall have the right to employ separate counsel (including local counsel), and the McMillin Entity shall bear the reasonable fees, costs and expenses of such separate counsel if (i) the use of counsel chosen by the McMillin Entity to represent the Indemnified Party would present such counsel with a conflict of interest; (ii) the actual or potential defendants in, or targets of, any such action include both the Indemnified Party and the McMillin Entity and the Indemnified Party shall have reasonably concluded that there may be legal defenses available to it and/or other indemnified parties which are materially

different from or additional to those available to the McMillin Entity; (iii) the McMillin Entity shall not have employed counsel reasonably satisfactory to the Indemnified Party to represent the Indemnified Party within a reasonable time after notice of the institution of such action; or (iv) the McMillin Entity shall authorize the Indemnified Party to employ separate counsel at the expense of the McMillin Entity. The McMillin Entity will not, without the prior written consent of the applicable Indemnified Parties, settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the Indemnified Party is an actual or potential party to such claim or action) unless such settlement, compromise or consent includes an unconditional release of the Indemnified Party from all liability arising out of such claim, action, suit or proceeding.

11. Promptly after receipt by any Indemnified Party of notice of any complaint or the commencement of any action or proceeding in connection with any matter for which the McMillin Entity is obligated to indemnify an Indemnified Party as set forth in the preceding paragraph, the Indemnified Party shall notify the McMillin Entity in writing of such complaint or of the commencement of such action or proceeding and, if the McMillin Entity so elects or is requested by the Indemnified Party, the McMillin Entity shall assume the defense of such action or proceeding, including the employment of counsel reasonably satisfactory to the Indemnified Party and the payment of the reasonable fees and disbursements of such counsel, in which event, under the circumstances described in paragraph 10 above, the McMillin Entity shall not be obligated to pay the reasonable fees and disbursements of separate counsel for the Indemnified Party in such action. Each Indemnified Party is a third party beneficiary of the agreement by the McMillin Entity to indemnify and hold harmless the Indemnified Parties as set forth in this paragraph 11 and the preceding paragraph 10 and shall have the same right to enforce the contractual promises of the McMillin Entity herein to provide such indemnity.
12. The McMillin Entity is fully qualified by all necessary permits, licenses, and certifications, to conduct its business as it is presently being conducted and, except for such licenses, certificates, approvals, variances, and permits which may be necessary for the construction of improvements within the District being constructed by the McMillin Entity or have already been obtained and are in full force and effect, there is no license, consent, approval, authorization, or other order of, or filing with, or certification by, any regulatory authority having jurisdiction over the McMillin Entity for the McMillin Entity to complete its planned development of its property in the District.
13. To the best knowledge of the undersigned, based upon due inquiry, the McMillin Entity is not in violation of any provision of, or in default under, its operating agreement or any other material agreement, lease, or other contract to which the McMillin Entity is a party or by which its property is bound, the violation of or default under which would materially and adversely affect the business, properties, assets, liabilities, or conditions (financial or other) of the McMillin Entity.

14. The McMillin Entity has never failed to comply in all material respects with an obligation to file an annual disclosure report with the appropriate information repositories as required under Securities and Exchange Commission Rule 15c2-12.
15. Other than as set forth in the Official Statement, to the actual knowledge of the McMillin Entity, (i) no public debt secured by a special tax or assessment on the land in the District owned by the McMillin Entity exists or is in the process of being authorized; and (ii) no other assessment district or community facilities district exists or is in the process of being formed, in each case which would include any portion of the land within the District owned by the McMillin Entity.
16. None of the parcels of land within the District owned by the McMillin Entity is delinquent in the payment of any taxes or assessments.
17. The execution and delivery by the McMillin Entity of this Certificate and the performance by the McMillin Entity of its obligations hereunder do not and will not result in violation of any provision of, or in default under, the McMillin Entity's operating agreement or any other material agreement, lease, or other contract to which the McMillin Entity is a party or by which its properties are bound.

Dated:

[MCMILLIN ENTITY SIGNATURE BLOCK]

PRELIMINARY OFFICIAL STATEMENT

\$3,950,000*

COMMUNITY FACILITIES DISTRICT NO. 3
(LIBERTY STATION)

SPECIAL TAX BONDS SERIES A OF 2008

Log of Outstanding Items as of February 12, 2008

<i>Page</i>	<i>Outstanding Items</i>	<i>Responsible Party</i>	<i>Expected Availability</i>
Cover	Date of Preliminary Official Statement (POS)	Bond Counsel	Following Approval of POS By City Council
Cover	Delivery Date to DTC	Bond Counsel	Following Printing of Final Official Statement (FOS)
Cover	Dated Date of FOS	Bond Counsel	Upon Sale of Bonds
Inside	Maturity Schedule	Bond Counsel	Upon Sale of Bonds
Cover	iii Regional Location Map	Underwriter	Prior to Printing POS
6	Estimated Sources and uses of Fund	Bond Counsel	Upon Sale of Bonds
8	Date of Resolution Authorizing Issuance	Bond Counsel	Following Adoption of Resolution of Issuance by City Council
8	Debt Service Schedule	Bond Counsel	Upon Sale of Bonds
10-11	Redemption Provisions	Bond Counsel	Upon Sale of Bonds
58	Underwriting Numbers	Bond Counsel	Upon Sale of Bonds
58	Signature to FOS	District	Pre-Closing
D-1	Amount of Bond Issue	Bond Counsel	Upon Sale of Bonds
D-1	Date of FOS	Bond Counsel	Upon Sale of Bonds
D-7	Signature Page of District Continuing Disclosure Certificate	District	Pre-Closing
D-8	Notice to Repositories of Failure to File Annual Report	District	Only Completed if District Fails to File Annual Report
E-1	Amount of Bond Issue	Bond Counsel	Upon Sale of Bonds
E-2	Date of FOS	Bond Counsel	Upon Sale of Bonds
E-8	Signature Page of Developer Continuing Disclosure Agreement	Developer / Dissemination Agent	Pre-Closing
E-9	Notice to Repositories of Failure to File Annual Report	Dissemination Agent	Only Completed if Developer Fails to File Annual Report
F-1	Closing Date (Opinion of Bond Counsel)	Bond Counsel	Following Printing of FOS (Note: Opinion of Bond Counsel Will Be Delivered at Closing)
F-1	Amount of Bond Issue	Bond Counsel	Upon Sale of Bonds

* Preliminary, subject to change.

PRELIMINARY OFFICIAL STATEMENT DATED MARCH __, 2008

NEW ISSUE – BOOK-ENTRY-ONLY

NO RATING

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described more fully herein, interest (and original issue discount) on the 2008 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2008 Bonds is exempt from State of California personal income tax. The difference between the issue price of a 2008 Bond (the first price at which a substantial amount of 2008 Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such 2008 Bond constitutes original issue discount. See "LEGAL MATTERS—Tax Exemption" herein.

\$3,950,000*

COMMUNITY FACILITIES DISTRICT NO. 3
(LIBERTY STATION)
SPECIAL TAX BONDS SERIES A OF 2008

Dated: Date of Delivery

Due: September 1, as shown on the inside cover page

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Community Facilities District No. 3 (Liberty Station) Special Tax Bonds 2008 (the "2008 Bonds") are being issued and delivered by Community Facilities District No. 3 (Liberty Station) (the "District") primarily to finance various public improvements needed to develop property located within the District, to fund an additional deposit to the Reserve Account securing the 2008 Bonds and the 2006 Bonds, and to pay costs of issuance for the 2008 Bonds. The District has been formed by and is located in the City of San Diego, California (the "City"). The City Council of the City is the legislative body of the District.

The 2008 Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of the State of California), and pursuant to a Bond Indenture, dated as of June 1, 2006, by and between the District and Wells Fargo Bank, National Association (the "Trustee"), as amended and supplemented by a First Supplemental Bond Indenture, dated as of April 1, 2008 (as amended, the "Bond Indenture"). The 2008 Bonds are special, limited obligations of the District and are payable solely from revenues derived from certain annual Special Taxes (as defined herein) to be levied on and collected from the owners and lessees of certain taxable property within Improvement Area No. 1 of the District ("Improvement Area No. 1") and Improvement Area No. 2 of the District ("Improvement Area No. 2") and from certain other funds pledged under the Bond Indenture, all as further described herein. The Special Taxes are to be levied according to the rate and method of apportionment for each of Improvement Area No. 1 and Improvement Area No. 2, both approved by the City Council of the City and the qualified electors within Improvement Area No. 1 and Improvement Area No. 2, respectively. See "SOURCES OF PAYMENT FOR THE 2008 BONDS—Special Taxes."

The 2008 Bonds are payable on a parity with the District's Special Tax Bonds Series A of 2006 issued in the aggregate principal amount of \$16,000,000 (the "2006 Bonds").

The 2008 Bonds are being issued in book-entry form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases may be made in principal amounts of \$5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of the 2008 Bonds will not receive certificates representing their beneficial ownership of the 2008 Bonds but will receive credit balances on the books of their respective nominees. The 2008 Bonds will not be transferable or exchangeable except for transfer to another nominee of DTC or as otherwise described herein. Interest on the 2008 Bonds will be payable semiannually on each March 1 and September 1 commencing September 1, 2008. Principal of and interest on the 2008 Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who are obligated to remit such payments to the beneficial owners of the 2008 Bonds. See "THE 2008 BONDS—General Provisions" and APPENDIX G—"BOOK-ENTRY ONLY SYSTEM" herein.

Neither the faith and credit nor the taxing power of the City, the County of San Diego, the State of California or any political subdivision thereof is pledged to the payment of the 2008 Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the 2008 Bonds. The 2008 Bonds are special tax obligations of the District payable solely from a portion of the Special Taxes and other amounts pledged under the Bond Indenture as more fully described herein.

The 2008 Bonds are subject to optional redemption, extraordinary redemption and mandatory sinking fund redemption prior to maturity as set forth herein. See "THE 2008 BONDS—Redemption" herein.

CERTAIN EVENTS COULD AFFECT THE ABILITY OF THE DISTRICT TO PAY THE PRINCIPAL OF AND INTEREST ON THE 2008 BONDS WHEN DUE. THE PURCHASE OF THE 2008 BONDS INVOLVES SIGNIFICANT INVESTMENT RISKS, AND THE 2008 BONDS ARE NOT SUITABLE INVESTMENTS FOR MANY INVESTORS. SEE THE SECTION OF THIS OFFICIAL STATEMENT ENTITLED "SPECIAL RISK FACTORS" FOR A DISCUSSION OF CERTAIN RISK FACTORS THAT SHOULD BE CONSIDERED, IN ADDITION TO THE OTHER MATTERS SET FORTH HEREIN, IN EVALUATING THE INVESTMENT QUALITY OF THE 2008 BONDS.

MATURITY SCHEDULE
(See Inside Cover Page)

The 2008 Bonds are offered when, as and if issued and accepted by the Underwriters, subject to approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel and Disclosure Counsel, and subject to certain other conditions. Certain legal matters will be passed on for the City and the District by the City Attorney and for the Underwriters by Nossaman, Guthner, Knox & Elliott LLP, Irvine, California, as counsel to the Underwriters. It is anticipated that the 2008 Bonds in book-entry form will be available for delivery to DTC in New York, New York, on or about March __, 2008.

STONE & YOUNGBERG LLC

DE LA ROSA & CO.

Dated: March __, 2008

* Preliminary, subject to change.

DOCSOC/1247358v14/022177-0104

MATURITY SCHEDULE*
 (Base CUSIP: _____)†

<i>Maturity Date (September 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>CUSIP†</i>	<i>Maturity Date (September 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>CUSIP†</i>
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\$ _____ % Term Bonds due September 1, 20__ Yield: ____% CUSIP†: _____
 \$ _____ % Term Bonds due September 1, 20__ Yield: ____% CUSIP†: _____

* Preliminary, subject to change.

† Copyright 2008, American Bankers Association. CUSIP® data herein is provided by Standard & Poor's, CUSIP® Service Bureau, a division of The McGraw-Hill Companies, Inc. The District takes no responsibility for the accuracy of such data.

CITY OF SAN DIEGO, CALIFORNIA

Jerry Sanders, *Mayor*

CITY COUNCIL

Scott Peters
Kevin Faulconer
Toni Atkins
Tony Young

Brian Maienschein
Donna Frye
Jim Madaffer
Ben Hueso

CITY OFFICIALS

Jay M. Goldstone
Chief Operating Officer

Mary Lewis
Chief Financial Officer

Michael J. Aguirre
City Attorney

Elizabeth Maland
City Clerk

Gail Granewich
City Treasurer

BOND COUNSEL AND DISCLOSURE COUNSEL

Stradling Yocca Carlson & Rauth,
a Professional Corporation
Newport Beach, California

FINANCIAL ADVISOR

Fieldman, Rolapp & Associates, Inc.
Irvine, California

UNDERWRITERS' COUNSEL

Nossaman, Guthner, Knox & Elliot LLP
Irvine, California

SPECIAL TAX CONSULTANT

David Taussig & Associates, Inc.
Newport Beach, California

**PRICE TREND AND MORTGAGE REPORT
CONSULTANT**

Empire Economics, Inc.
Capistrano Beach, California

TRUSTEE

Wells Fargo Bank, National Association
Los Angeles, California

Except where otherwise indicated, all information contained in this Official Statement has been provided by the City and the District. No dealer, broker, salesperson or other person has been authorized by the City, the District, the Trustee or the Underwriters to give any information or to make any representations in connection with the offer or sale of the 2008 Bonds other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the City, the District, the Trustee or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2008 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers or Owners of the 2008 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with a nationally recognized municipal securities depository.

The Underwriters have provided the following sentence for inclusion in this Official Statement:

The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The information set forth herein which has been obtained from third party sources is believed to be reliable but is not guaranteed as to accuracy or completeness by the City or the District. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the District or any other parties described herein since the date hereof. All summaries of the Bond Indenture or other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the City for further information in connection therewith.

All information material to the making of an informed investment decision with respect to the 2008 Bonds is contained in this Official Statement. While the City maintains an internet website for various purposes, none of the information on its website is incorporated by reference into this Official Statement. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget" or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the caption "THE DISTRICT" and "THE DEVELOPMENT AND PROPERTY OWNERSHIP."

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. NEITHER THE CITY NOR THE DISTRICT PLANS TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

IN CONNECTION WITH THE OFFERING OF THE 2008 BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2008 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE 2008 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE 2008 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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[REGIONAL LOCATION MAP]

\$3,950,000*
COMMUNITY FACILITIES DISTRICT NO. 3
(LIBERTY STATION)
SPECIAL TAX BONDS SERIES A OF 2008

INTRODUCTION

General

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the appendices, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The sale and delivery of the 2008 Bonds (defined below) to potential investors is made only by means of the entire Official Statement. All capitalized terms used in this Official Statement and not defined shall have the meaning set forth in APPENDIX D—"SUMMARY OF BOND INDENTURE" herein.

The purpose of this Official Statement, which includes the cover page, the inside cover page, the table of contents and the attached appendices (collectively, the "Official Statement"), is to provide certain information concerning the issuance of the \$3,950,000* Community Facilities District No. 3 (Liberty Station) Special Tax Bonds Series A of 2008 (the "2008 Bonds"). The 2008 Bonds are issued on a parity with the District's Special Tax Bonds Series A of 2006, issued in the aggregate principal amount of \$16,000,000 (the "2006 Bonds" and together with the 2008 Bonds, the "Bonds"). The proceeds of the 2008 Bonds will be used to construct and acquire various public improvements required with respect to the development of certain land within Improvement Area No. 1 and Improvement Area No. 2 of Community Facilities District No. 3 (Liberty Station) (the "District"), to fund an additional deposit to the Reserve Account securing the Bonds and to pay costs of issuance of the 2008 Bonds.

The 2008 Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of the State of California) (the "Act"), and a Bond Indenture dated as of June 1, 2006, as amended and supplemented by a First Supplemental Bond Indenture, dated as of April 1, 2008 (as amended, the "Bond Indenture") by and between the District and Wells Fargo Bank, National Association (the "Trustee"). The 2008 Bonds are secured under the Bond Indenture on parity with the 2006 Bonds by a pledge of and lien upon a portion of the Special Taxes (as defined herein) collected by the District and all moneys in the Special Tax Fund (other than the Administrative Expense Account therein) under the Bond Indenture.

Unless otherwise noted, references herein to the District refer to Improvement Area No. 1 and Improvement Area No. 2, collectively.

The District

Formation Proceedings. The District has been formed by the City of San Diego (the "City") pursuant to the Act. The City Council of the City acts as the legislative body of the District.

The Act was enacted by the California legislature to provide an alternative method of financing certain public capital facilities and services, especially in developing areas of the State. Any local agency (as defined in the Act) may establish a district to provide for and finance the cost of eligible public facilities and services. Generally, the legislative body of the local agency which forms a district acts on behalf of such district as its legislative body. Subject to approval by two-thirds of the votes cast at an election and compliance with the

* Preliminary; subject to change.

other provisions of the Act, a legislative body of a local agency may issue bonds for a district and may levy and collect a special tax within such district to repay such indebtedness.

Pursuant to the Act, the City Council adopted the necessary resolutions stating its intent to establish the District, to designate within it Improvement Area No. 1 and Improvement Area No. 2, to authorize the levy of Special Taxes on taxable property within the boundaries of the District, and to have the District incur bonded indebtedness. Following public hearings conducted pursuant to the provisions of the Act, the City Council adopted resolutions establishing the District, designating within it Improvement Area No. 1 and Improvement Area No. 2, authorizing the levy of Special Taxes on property within Improvement Area No. 1 and Improvement Area No. 2 and calling special elections to submit the levy of the Special Taxes and the incurring of bonded indebtedness to the qualified voters of Improvement Area No. 1 and Improvement Area No. 2, respectively. On June 25, 2002, at elections held pursuant to the Act, the landowners who comprised the qualified voters of Improvement Area No. 1 and Improvement Area No. 2 authorized the District to incur bonded indebtedness on behalf of both Improvement Area No. 1 and Improvement Area No. 2 in an aggregate principal amount not to exceed \$30,000,000. At the elections held on June 25, 2002, and in order to provide a source of funds to pay the principal of and interest on the \$30,000,000 of authorized bonds, the qualified voters of Improvement Area No. 1 approved a rate and method of apportionment of Special Taxes for Improvement Area No. 1 (the "IA1 RMA") and the qualified voters of Improvement Area No. 2 approved a rate and method of apportionment of Special Taxes for Improvement Area No. 2 (the "IA2 RMA," and together with the IA1 RMA, the "Rate and Method"). The IA1 RMA and IA2 RMA are attached hereto as APPENDIX A-1 and APPENDIX A-2, respectively. See "THE 2008 BONDS—Authority for Issuance."

Description and Development. The District consists of approximately 242 gross acres of the former site of the U.S. Naval Training Center located approximately 2.5 miles northwest of downtown San Diego. Historically operated by the United States Navy as a training facility, all active military use of the training facility concluded in 1997, ending seventy years of use of the property as a naval training center. The District is bordered on the east by the United States Marine Corps Recruit Depot and San Diego International Airport, on the south by Harbor Drive, the San Diego Bay and a new military housing complex constructed for the Department of Defense and on the north and west by Rosecrans Street and existing residential neighborhoods.

In September 2001, the City approved the Naval Training Center Precise Plan/Local Coastal Program (the "Precise Plan"). The land use entitlements for the District permit development pursuant to the Precise Plan. The Precise Plan, which includes certain land not within the District, provides for 350 residential units; 495,000 square feet of educational uses; 380,000 square feet of new construction for an office and research park development; a mixed-use area with 324,000 square feet of commercial development; a 22-acre golf course; 301,000 square feet of civic, arts and cultural uses, two hotels totaling 1,000 rooms; a 46-acre public park site and other open space and recreational uses; 130,000 square feet of ocean monitoring laboratories; a boat channel and 351,000 square feet for a Public Safety Training Institute. See "THE DEVELOPMENT AND PROPERTY OWNERSHIP."

Development within the District pursuant to the Precise Plan began in 2001. In Improvement Area No. 1, 349 building permits have been issued and all 349 residential units have been built and sold to individual homeowners with escrow having closed. In Improvement Area No. 2, there are numerous smaller "sub-areas" that the Developer has established. Such sub-areas include Retail/Commercial (Marketplace, Shoreline Plaza & Sellers Plaza), Office (Office District & John & Alice Finn Office Plaza), Educational and Hotel East & West. A substantial amount of the improvements in Improvement Area No. 2 have been completed. For a more detailed description of the status of development within the District, see "DEVELOPMENT AND PROPERTY OWNERSHIP—Status of Development."

The District is adjacent to the San Diego International Airport, commonly known as "Lindbergh Field." The San Diego County Regional Airport Authority (the "Airport Authority"), which serves as the airport operator for Lindbergh Field and the Lindbergh Field Airport Land Use Commission (the "ALUC") for San Diego County, has requested that all development within the Airport Influence Area for Lindbergh Field,

which the District is within, be submitted to the ALUC for a determination of whether the proposed development is consistent with the adopted Airport Land Use Compatibility Plan ("ALUCP") for Lindbergh Field.

The City has agreed to submit to the Airport Authority for review certain proposals for development in the District. See "SPECIAL RISK FACTORS—Proximity to the San Diego International Airport."

Developer. The master developer of the property in the District is McMillin – NTC, LLC, a Delaware limited liability company (the "Developer"). The two members of the Developer are McMillin Companies, LLC and Merced Partners Limited Partnership. For more information concerning the Developer, see "THE DEVELOPMENT AND PROPERTY OWNERSHIP—Property Ownership."

Sources of Payment for the 2008 Bonds

Special Taxes. As used in this Official Statement, the term "Special Tax" is that tax which has been authorized pursuant to the Act to be levied against certain interests in property within Improvement Area No. 1 and Improvement Area No. 2. The Special Taxes are authorized to be issued against certain parcels owned in fee and against certain leasehold interests created with respect to property within the District. Unless otherwise stated, references herein to a levy of Special Taxes includes both a levy on the applicable fee interests and leasehold interests and references herein to landowner includes both the owner in fee and the ground lessee, as applicable. A Special Tax will be levied either on the fee interest or the leasehold interest on a parcel in accordance with the Rate and Method but will not simultaneously be levied on both.

The Special Tax will be levied on property within Improvement Area No. 1 in accordance with the IA1 RMA, which is the approved rate and method of apportionment of Special Taxes for Improvement Area No. 1, and the Special Tax will be levied on property within Improvement Area No. 2 in accordance with the IA2 RMA, which is the approved rate and method of apportionment of Special Taxes for Improvement Area No. 2 (together, the "Rate and Method"). See "SOURCES OF PAYMENT FOR THE BONDS—Special Taxes," APPENDIX A-1—"IMPROVEMENT AREA NO. 1 RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES" and APPENDIX A-2—"IMPROVEMENT AREA NO. 2 RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES." Under the Bond Indenture, the District has pledged to repay the 2008 Bonds and the 2006 Bonds on a parity basis from the Special Tax revenues remaining after the payment of certain annual Administrative Expenses of the District (the "Net Taxes") and amounts on deposit in the Special Tax Fund (other than the Administrative Expense Account therein) established under the Bond Indenture.

The Special Taxes are the primary security for the repayment of the Bonds. In the event that the Special Taxes are not paid when due, the only sources of funds available to pay the debt service on the Bonds are amounts held by the Trustee in the Special Tax Fund (other than the Administrative Expense Account therein), including amounts held in the Reserve Account therein. See "SOURCES OF PAYMENT FOR THE BONDS—Reserve Account of the Special Tax Fund."

Foreclosure Proceeds. If a property owner fails to pay Special Taxes when due, the District's only method of collection is through a sale of the delinquent parcel at a judicial foreclosure sale. The District has covenanted for the benefit of the owners of the Bonds that it will commence, and diligently pursue to completion, judicial foreclosure proceedings (i) against Assessor's Parcels with delinquent Special Taxes in excess of \$10,000 by the October 1 following the close of the Fiscal Year in which such Special Taxes were due, and (ii) against all Assessor's Parcels with delinquent Special Taxes by the October 1 following the close of any Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied and the amount in the Reserve Account is less than the Reserve Requirement. See "SOURCES OF PAYMENT FOR THE BONDS—Proceeds of Foreclosure Sales" herein.

There is no assurance that the property interests within the District against which the Special Taxes are levied can be sold at foreclosure or otherwise for the assessed values described herein, or for a price sufficient to pay the principal of and interest on the Bonds in the event of a default in payment of Special Taxes by the current or future landowners within the District. See "SPECIAL RISK FACTORS—Property Values." Approximately 70 net acres within Improvement Area No. 2 of the District was ground leased by the Redevelopment Agency of the City of San Diego (the "Agency") to the Developer. The Developer subsequently has assigned a number of the ground leases to the various entities that own or expect to construct improvements on the ground leased parcels. As to the ground leased parcels, the Special Tax is levied upon the leasehold interest only and not on the Agency's fee interest. In the event of a Special Tax delinquency, the foreclosure action will proceed against the leasehold interest only and not the Agency's fee interest. See "SOURCE OF PAYMENT FOR THE BONDS—Special Taxes—Provisions Regarding Agency Leased Parcels" herein.

EXCEPT FOR THE SPECIAL TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE 2008 BONDS. THE 2008 BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE CITY NOR GENERAL OBLIGATIONS OF THE DISTRICT, BUT ARE SPECIAL, LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM THE NET TAXES AND CERTAIN AMOUNTS HELD UNDER THE BOND INDENTURE AS MORE FULLY DESCRIBED HEREIN.

Parity Bonds and Liens. The District may, without the consent of the Owners of the 2008 Bonds, issue additional indebtedness secured by the Net Taxes on a parity with the 2008 Bonds and the 2006 Bonds ("Parity Bonds"), but only for the purpose of refunding all or a portion of the Bonds or Parity Bonds issued for refunding purposes. See "SOURCES OF PAYMENT FOR THE BONDS—Issuance of Parity Bonds." Other taxes and/or special assessments with liens equal in priority to the continuing lien of the Special Taxes have been levied and may also be levied in the future on the property within the District which could adversely affect the willingness of the owners of the taxable parcels in the District to pay the Special Taxes when due. See "SPECIAL RISK FACTORS—Parity Taxes, Special Assessments and Land Development Costs" herein.

Description of the 2008 Bonds

The 2008 Bonds will be issued and delivered as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to actual purchasers of the 2008 Bonds (the "Beneficial Owners") in the denominations of \$5,000 or any integral multiple thereof, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the 2008 Bonds. In the event that the Book-Entry Only System described herein is no longer used with respect to the 2008 Bonds, the 2008 Bonds will be registered and transferred in accordance with the Bond Indenture. See APPENDIX G—"BOOK ENTRY ONLY SYSTEM."

Principal of, premium, if any, and interest on the 2008 Bonds is payable by the Trustee to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. See APPENDIX G—"BOOK ENTRY ONLY SYSTEM."

The 2008 Bonds are subject to optional redemption, extraordinary redemption and mandatory sinking fund redemption as described herein. For a more complete description of the 2008 Bonds and the basic documentation pursuant to which they are being sold and delivered, see "THE 2008 BONDS" and APPENDIX C—"SUMMARY OF BOND INDENTURE" herein.

Tax Matters

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, based on existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants and requirements described herein, interest on the 2008 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. It is the further opinion of Bond Counsel that interest on the 2008 Bonds is exempt from State of California personal income tax. The difference between the issue price of a 2008 Bond (the first price at which a substantial amount of the 2008 Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to a 2008 Bond constitutes original issue discount, and, in the opinion of Bond Counsel, the amount of original issue discount that accrues to the owner of a 2008 Bond is excluded from gross income of such Owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax. See "LEGAL MATTERS—Tax Exemption" herein.

Professionals Involved in the Offering

Wells Fargo Bank, National Association will act as Trustee under the Bond Indenture and as the initial Dissemination Agent under the Continuing Disclosure Agreement of the Developer. Stone & Youngberg LLC and E.J. De La Rosa & Co., Inc. are the Underwriters of the 2008 Bonds. Certain proceedings in connection with the issuance and delivery of the 2008 Bonds are subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel and Disclosure Counsel. Fieldman, Ralapp & Associates, Inc. is acting as Financial Advisor to the City in connection with the 2008 Bonds. Certain legal matters will be passed on for the City and the District by the City Attorney, and for the Underwriters by Nossaman, Guthner, Knox & Elliott LLP, Irvine, California, as Underwriters' Counsel. Other professional services have been performed by David Taussig & Associates, Inc., Newport Beach, California, as Special Tax Consultant.

For information concerning the respects in which certain of the above-mentioned professionals, advisors, counsel and agents may have a financial or other interest in the offering of the 2008 Bonds, see "LEGAL MATTERS—Financial Interests" herein.

Continuing Disclosure

The District and the Developer have each agreed to provide, or cause to be provided, certain annual financial information and operating data to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission. The District and the Developer have each further agreed to provide notice of certain material events. These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5). See "CONTINUING DISCLOSURE" herein and Appendix D and Appendix E hereto for a description of the specific nature of the annual reports to be filed by the District and the Developer and notices of material events to be provided by the District and the Developer. Filing required to be made under the Continuing Disclosure Certificate of the District and the Continuing Disclosure Agreement of the Developer may be made through the Central Post Office (as defined in Appendices D and E hereto).

Bond Owners' Risks

Certain events could affect the timely repayment of the principal of and interest on the 2008 Bonds when due. See the section of this Official Statement entitled "SPECIAL RISK FACTORS" for a discussion of certain factors which should be considered, in addition to other matters set forth herein, in evaluating an investment in the 2008 Bonds. The 2008 Bonds are not rated by any credit rating agency. *The purchase of*

the 2008 Bonds involves significant investment risks, and the 2008 Bonds are not suitable investments for many investors. See "SPECIAL RISK FACTORS" herein.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

Brief descriptions of the 2008 Bonds and the Bond Indenture are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to the Bond Indenture, the 2008 Bonds and the constitution and laws of the State as well as the proceedings of the City Council, acting as the legislative body of the District, are qualified in their entirety by references to such documents, laws and proceedings, and with respect to the 2008 Bonds, by reference to the Bond Indenture.

Copies of the Bond Indenture, the Continuing Disclosure Certificate of the District, the Continuing Disclosure Agreement of the Developer and other documents and information referred to herein are available for inspection and (upon request and payment to the City of a charge for copying, mailing and handling) for delivery from the City at the Office of the City Clerk at 202 C Street, San Diego, California 92101, Attention: City Clerk.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the expected sources and uses of 2008 Bond proceeds:

Sources of Funds

Principal Amount of 2008 Bonds	\$
Original Issue Discount/Premium	
TOTAL SOURCES	\$

Uses of Funds

Acquisition and Construction Fund	\$
Reserve Account	
Cost of Issuance Account	
Underwriters' Discount	
TOTAL USES	\$

THE 2008 BONDS

General Provisions

The 2008 Bonds will be dated their date of delivery and will bear interest at the rates per annum set forth on the inside cover page hereof, payable semiannually on each March 1 and September 1, commencing on September 1, 2008 (each, an "Interest Payment Date"), and will mature in the amounts and on the dates set forth on the inside cover page of this Official Statement. The 2008 Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof.

Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months. Interest on any 2008 Bond will be payable from the Interest Payment Date next preceding the date of authentication of that 2008 Bond, unless (i) such date of authentication is an Interest Payment Date, in which event interest will be payable from such date of authentication; (ii) the date of authentication is after a Record Date but prior to the immediately succeeding Interest Payment Date, in which event interest will be payable from the Interest Payment Date immediately succeeding the date of authentication; or (iii) the date of authentication is prior to the close of business on the first Record Date occurring after the issuance of the 2008 Bonds, in which event

interest will be payable from the dated date of the 2008 Bonds; provided, however, that if at the time of authentication of a 2008 Bond, interest is in default, interest on that 2008 Bond will be payable from the last Interest Payment Date to which the interest has been paid or made available for payment.

Interest on any 2008 Bond will be paid to the person whose name appears as its owner in the registration books held by the Trustee on the close of business on the Record Date. Interest will be paid by check of the Trustee mailed by first class mail, postage prepaid, to the Owner of the 2008 Bonds at its address on the registration books. Pursuant to a written request prior to the Record Date of an Owner of the 2008 Bonds of at least \$1,000,000 in aggregate principal amount of 2008 Bonds, payment will be made by wire transfer in immediately available funds to a designated account in the United States.

Principal of the 2008 Bonds and any premium due upon redemption is payable upon presentation and surrender of the 2008 Bonds at the principal corporate trust office of the Trustee in Los Angeles, California.

Authority for Issuance

The 2008 Bonds are issued pursuant to the Act and the Bond Indenture. As required by the Act, the City Council of the City has taken the following actions with respect to establishing the District and the 2008 Bonds:

Resolutions of Intention: On May 7, 2002, the City Council of the City adopted a resolution stating its intention to establish the District and designate within it two improvement areas and to authorize the levy of a special tax therein, and a resolution declaring its intention to incur bonded indebtedness in an amount not to exceed \$30,000,000.

Resolutions of Formation: Immediately following a noticed public hearing opened on June 25, 2002, the City Council of the City adopted resolutions which established the District and designated within it Improvement Area No. 1 and Improvement Area No. 2, authorized the levy of a special tax within Improvement Area No. 1 and Improvement Area No. 2, and declared the necessity for the District to incur bonded indebtedness.

Resolution Calling Election: The resolutions adopted by the City Council of the City on June 25, 2002 also called for an election by the landowners within Improvement Area No. 1 and Improvement Area No. 2 for the same date to authorize the levy of the Special Tax and the incurring of bonded indebtedness.

Landowner Election and Declaration of Results: On June 25, 2002, an election was held for each improvement area at which the landowners within Improvement Area No. 1 and Improvement Area No. 2, respectively, approved a ballot proposition authorizing the issuance by the District of up to \$30,000,000 of bonds to finance the purchase and construction of various public facilities and approved the levy of the Special Tax in accordance with the Rate and Method for its improvement area.

Special Tax Lien: A Notice of Special Tax Lien for Improvement Area No. 1 was recorded in the real property records of the County on July 5, 2002, as a continuing lien against the property in Improvement Area No. 1. A Notice of Special Tax Lien for Improvement Area No. 2 was recorded in the real property records of the County on July 9, 2002, as a continuing lien against the property in Improvement Area No. 2.

Ordinance Levying Special Taxes: On July 8, 2002, the City Council adopted Ordinance No. O-19078 levying the Special Tax within Improvement Area No. 1 and Improvement Area No. 2.

Resolution Authorizing Issuance of the Prior Bonds: On May 24, 2005, the City Council adopted a resolution approving issuance of the Prior Bonds.

Resolution Authorizing Issuance of the 2008 Bonds: On _____, 2008, the City Council adopted a resolution approving issuance of the 2008 Bonds.

Debt Service Schedule

The following table presents the annual debt service on the 2008 Bonds (including sinking fund redemptions), assuming that there are no optional or extraordinary redemptions. However, it should be noted that the Rate and Method allows prepayment of the Special Taxes in full or in part ("Prepayments") and the Bond Indenture requires that Prepayments be applied on a pro rata basis to the extraordinary redemption of 2006 Bonds and 2008 Bonds. See "SOURCES OF PAYMENT FOR THE BONDS—Special Taxes" and "THE 2008 BONDS—Redemption."

<i>Date</i>	<i>2006 Bonds Debt Service</i>	<i>2008 Bonds Principal*</i>	<i>2008 Bonds Interest*</i>	<i>Total*</i>
2008	\$ 1,130,513	\$	\$	\$
2009	1,133,763			
2010	1,131,263			
2011	1,133,263			
2012	1,129,513			
2013	1,134,194			
2014	1,132,800			
2015	1,130,600			
2016	1,132,594			
2017	1,133,513			
2018	1,132,513			
2019	1,130,393			
2020	1,132,153			
2021	1,132,513			
2022	1,131,473			
2023	1,133,543			
2024	1,133,903			
2025	1,132,553			
2026	1,134,493			
2027	1,129,438			
2028	1,132,350			
2029	1,132,963			
2030	1,131,275			
2031	1,132,288			
2032	1,130,713			
2033	1,131,550			
2034	1,129,513			
2035	1,129,600			
2036	1,131,525			

Source: The Underwriter.

* Preliminary, subject to change.

Estimated Debt Service Coverage

The table below sets forth the current debt service coverage on the 2006 Bonds and the 2008 Bonds based on the development status of the land within the District as of January 2, 2008 and the Assigned Special Taxes that may be levied within the District on Developed Property.

CITY OF SAN DIEGO COMMUNITY FACILITIES DISTRICT NO. 3 (LIBERTY STATION) BOND DEBT SERVICE COVERAGE

<i>Bond Year Ending (September 1)</i>	<i>Developed Property Special Tax Revenues in Improvement Area No. 1⁽¹⁾</i>	<i>Developed Property Special Tax Revenues in Improvement Area No. 2⁽²⁾</i>	<i>Total Developed Property Special Tax Revenues</i>	<i>Annual Administrative Expenses⁽³⁾</i>	<i>2006 Bonds Debt Service⁽⁴⁾</i>	<i>2008 Bonds Debt Service^{(5)*}</i>	<i>Total Bonds Debt Service*</i>	<i>Coverage from Developed Property Special Taxes^{(6)*}</i>
2008	\$1,124,346	\$509,425	\$1,633,771	\$54,121	\$1,130,513	\$161,546	\$1,292,059	122.26%
2009	1,124,346	722,965	1,847,311	55,204	1,133,763	280,199	1,413,961	126.74
2010	1,124,346	722,965	1,847,311	56,308	1,131,263	282,534	1,413,796	126.68
2011	1,124,346	722,965	1,847,311	57,434	1,133,263	279,594	1,412,856	126.68
2012	1,124,346	722,965	1,847,311	58,583	1,129,513	281,584	1,411,096	126.76
2013	1,124,346	722,965	1,847,311	59,754	1,134,194	278,284	1,412,478	126.55
2014	1,124,346	722,965	1,847,311	60,949	1,132,800	279,909	1,412,709	126.45
2015	1,124,346	722,965	1,847,311	60,949	1,130,600	281,229	1,411,829	126.53
2016	1,124,346	722,965	1,847,311	60,949	1,132,594	282,234	1,414,828	126.26
2017	1,124,346	722,965	1,847,311	60,949	1,133,513	282,869	1,416,381	126.12
2018	1,124,346	722,965	1,847,311	60,949	1,132,513	283,119	1,415,631	126.19
2019	1,124,346	722,965	1,847,311	60,949	1,130,393	283,019	1,413,411	126.39
2020	1,124,346	722,965	1,847,311	60,949	1,132,153	282,559	1,414,711	126.27
2021	1,124,346	722,965	1,847,311	60,949	1,132,513	281,729	1,414,241	126.31
2022	1,124,346	722,965	1,847,311	60,949	1,131,473	280,519	1,411,991	126.51
2023	1,124,346	722,965	1,847,311	60,949	1,133,543	278,919	1,412,461	126.47
2024	1,124,346	722,965	1,847,311	60,949	1,133,903	281,731	1,415,634	126.19
2025	1,124,346	722,965	1,847,311	60,949	1,132,553	278,969	1,411,521	126.56
2026	1,124,346	722,965	1,847,311	60,949	1,134,493	280,919	1,415,411	126.21
2027	1,124,346	722,965	1,847,311	60,949	1,129,438	282,294	1,411,731	126.54
2028	1,124,346	722,965	1,847,311	60,949	1,132,350	283,094	1,415,444	126.21
2029	1,124,346	722,965	1,847,311	60,949	1,132,963	283,106	1,416,069	126.15
2030	1,124,346	722,965	1,847,311	60,949	1,131,275	282,531	1,413,806	126.35
2031	1,124,346	722,965	1,847,311	60,949	1,132,288	281,369	1,413,656	126.36
2032	1,124,346	722,965	1,847,311	60,949	1,130,713	279,619	1,410,331	126.66
2033	1,124,346	722,965	1,847,311	60,949	1,131,550	282,281	1,413,831	126.35
2034	1,124,346	722,965	1,847,311	60,949	1,129,513	279,063	1,408,575	126.82
2035	1,124,346	722,965	1,847,311	60,949	1,129,600	280,256	1,409,856	126.71
2036	1,124,346	722,965	1,847,311	60,949	1,131,525	280,569	1,412,094	126.50

⁽¹⁾ Figures represent Special Tax revenues on Developed Property Improvement Area No. 1 based on actual Fiscal Year 2007-08 levy for bond year ending September 1, 2008. Special Tax revenues on Developed Property in Improvement Area No. 1 for bond year ending September 1, 2009 and thereafter are based on Assigned Special Tax revenues from property classified as Developed Property as of January 2, 2008. Development in Improvement Area No. 1 complete and no further development is expected.

⁽²⁾ Figures represent Special Tax revenues on Developed Property Improvement Area No. 2 based on actual Fiscal Year 2007-08 levy for bond year ending September 1, 2008. Special Tax revenues on Developed Property in Improvement Area No. 2 for bond year ending September 1, 2009 and thereafter are based on Assigned Special Tax revenues from property classified as Developed Property as of January 2, 2008. Assumes no future development.

⁽³⁾ Administrative expenses are based on the Fiscal Year 2007-08 Administrative Expense Cap of \$54,121 escalated annually by 2% through June 30, 2014.

⁽⁴⁾ Figures are based on debt service for outstanding 2006 Bonds.

⁽⁵⁾ Based on \$3,950,000 of principal and an assumed true interest cost of 5.91% per annum.

⁽⁶⁾ Calculated by subtracting Annual Administrative Expenses column from Total Developed Property Special Tax Revenues column and dividing the resulting amount by the Total Bonds Debt Service column.

Source: David Taussig & Associates

* Preliminary, subject to change.

Redemption

Optional Redemption. The 2008 Bonds maturing on or after September 1, 20__ are subject to optional redemption prior to maturity at the option of the District from such maturity or maturities as selected by the District and by lot within a maturity, from any available funds, on any Interest Payment Date on or after September 1, 20__, in whole or in part, at the following redemption prices, expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the date of redemption:

Redemption Date

Redemption Price

%

Mandatory Sinking Payment Redemption. The Term Bonds maturing on September 1, 20__ (the "20__ Term Bonds") will be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Redemption Account established by the Bond Indenture, on September 1, 20__, and on each September 1 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The 20__ Term Bonds so called for redemption will be selected by the Trustee by lot and will be redeemed at a redemption price for each redeemed 20__ Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

Term Bonds Maturing September 1, 20__

Sinking Fund Redemption Date

Sinking Payments

The Term Bonds maturing on September 1, 20__ (the "20__ Term Bonds") will be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Redemption Account established by the Bond Indenture, on September 1, 20__, and on each September 1 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The 20__ Term Bonds so called for redemption will be selected by the Trustee by lot and will be redeemed at a redemption price for each redeemed 20__ Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

Term Bonds Maturing September 1, 20__

Sinking Fund Redemption Date

Sinking Payments

If the District purchases Term Bonds during the Fiscal Year immediately preceding one of the sinking fund redemption dates specified above, the District is required to notify the Trustee at least 45 days prior to the redemption date as to the principal amount purchased, and the amount purchased will be credited at the time of purchase, to the extent of the full principal amount of the purchase. In the event of a partial optional

redemption or mandatory redemption of the Term Bonds, each of the remaining Sinking Fund Payments for such Term Bonds, as described above, will be reduced, as nearly as practicable, on a pro rata basis in the amount of \$5,000 or any integral multiple thereof.

Extraordinary Redemption. The 2008 Bonds are subject to extraordinary redemption as a whole, or in part on a pro rata basis among maturities, on any Interest Payment Date, and will be redeemed by the Trustee, from Prepayments deposited to the Redemption Account plus amounts transferred from the Reserve Account (see "SOURCES OF PAYMENT FOR THE BONDS—Reserve Account of the Special Tax Fund") which are allocated to the redemption of the 2008 Bonds, at the following redemption prices expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the date of redemption:

<i>Redemption Date</i>	<i>Redemption Price</i>
	%

Notice of Redemption. The Trustee is obligated to mail, at least 30 days but not more than 45 days prior to the date of redemption, notice of intended redemption, by first-class mail, postage prepaid, to the original purchasers of the 2008 Bonds and the respective registered Owner of the 2008 Bonds at the addresses appearing on the 2008 Bond registration books. The notice of redemption must: (i) specify the CUSIP numbers (if any), the bond numbers and the maturity date or dates of the 2008 Bonds selected for redemption; (ii) state the date fixed for redemption and surrender of the 2008 Bonds to be redeemed; (iii) state the redemption price; (iv) state the place or places where the 2008 Bonds are to be redeemed; (v) in the case of 2008 Bonds to be redeemed only in part, state the portion of such 2008 Bond which is to be redeemed; (vi) state the date of issue of the 2008 Bonds as originally issued; (vii) state the rate of interest borne by each 2008 Bond being redeemed; and (viii) state any other descriptive information needed to identify accurately the 2008 Bonds being redeemed as shall be specified by the Trustee.

So long as notice by first class mail has been provided as set forth above, the actual receipt by the Owner of any 2008 Bond of notice of such redemption is not a condition precedent to redemption, and failure to receive such notice will not affect the validity of the proceedings for redemption of such 2008 Bonds or the cessation of interest on the date fixed for redemption.

With respect to any notice of optional redemption of the 2008 Bonds, such notice may state that such redemption shall be conditional upon the receipt by the Trustee, on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium if any, and interest on the 2008 Bonds to be redeemed and that, if such money shall not have been so received, said notice shall be of no force and effect and the Trustee shall not be required to redeem such 2008 Bonds. In the event that such notice of redemption contains such a condition and such moneys are not so received, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

Effect of Redemption. When notice of redemption has been given, and when the amount necessary for the redemption of the 2008 Bonds called for redemption is set aside for that purpose in the Redemption Account, the 2008 Bonds designated for redemption will become due and payable on the date fixed for redemption, and upon presentation and surrender of the 2008 Bonds at the place specified in the notice of redemption, and no interest will accrue on the 2008 Bonds called for redemption from and after the redemption date, and the Owners of the redeemed 2008 Bonds, after the redemption date, may look for the payment of principal and premium, if any, of such 2008 Bonds or portions of 2008 Bonds only to the Redemption Account and shall have no rights, except with respect to the payment of the redemption price from the Redemption Account.

Registration, Transfer and Exchange

Registration. The Trustee will keep sufficient books for the registration and transfer of the 2008 Bonds. The ownership of the 2008 Bonds will be established by the 2008 Bond registration books held by the Trustee.

Transfer or Exchange. Whenever any 2008 Bond is surrendered for registration of transfer or exchange, the Trustee will authenticate and deliver a new 2008 Bond or 2008 Bonds of the same maturity, for a like aggregate principal amount of authorized denominations; provided that the Trustee will not be required to register transfers or make exchanges of (i) 2008 Bonds for a period of 15 days next preceding the date of any selection of the 2008 Bonds to be redeemed; or (ii) any 2008 Bonds chosen for redemption.

SOURCES OF PAYMENT FOR THE BONDS

Limited Obligations

The 2008 Bonds are special, limited obligations of the District payable only from amounts pledged under the Bond Indenture and from no other sources. The 2008 Bonds are secured under the Bond Indenture on a parity with the 2006 Bonds.

The Special Taxes are the primary security for the repayment of the Bonds. Under the Bond Indenture, the District has pledged to repay the 2008 Bonds, the 2006 Bonds and any Parity Bonds from the Net Taxes (which are Special Tax revenues remaining after the payment of the annual Administrative Expenses of up to the Administrative Expenses Cap) and from amounts held in the Special Tax Fund (other than amounts held in the Administrative Expense Account therein) established under the Bond Indenture. Special Tax revenues include the proceeds of the Special Taxes received by the District, including any scheduled payments and Prepayments thereof and the net proceeds of the redemption of delinquent Special Taxes or sale of interests in property sold as a result of foreclosure of the lien of delinquent Special Taxes to the amount of said lien, but excluding penalties and interest thereon.

In the event that the Special Tax revenues are not received when due, the only source of funds available to pay the debt service on the 2008 Bonds will be amounts held by the Trustee in the Special Tax Fund (other than the Administrative Expense Account therein), including amounts held in the Reserve Account therein, for the exclusive benefit of the Owners of the 2008 Bonds, the 2006 Bonds and any Parity Bonds.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE COUNTY OF SAN DIEGO, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE 2008 BONDS. EXCEPT FOR THE SPECIAL TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE 2008 BONDS. THE 2008 BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE CITY BUT ARE SPECIAL, LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM THE NET TAXES AND OTHER AMOUNTS PLEDGED UNDER THE BOND INDENTURE AS MORE FULLY DESCRIBED HEREIN.

Special Taxes

Levy and Pledge. The District has covenanted in the Bond Indenture that each year it will levy Special Taxes up to the maximum rates permitted under the Rate and Method in an amount sufficient, together with other amounts on deposit in the Special Tax Fund, to pay the principal of and interest on any Outstanding Bonds and Parity Bonds, to replenish the Reserve Account to an amount equal to the Reserve Requirement and to pay the estimated Administrative Expenses.

The Special Taxes levied in any fiscal year may not exceed the maximum rates authorized pursuant to the Rate and Method. See APPENDIX A-1—"IMPROVEMENT AREA NO. 1 RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES" and APPENDIX A-2—"IMPROVEMENT AREA NO. 2 RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES" hereto. There is no assurance that the Special Tax proceeds will, in all circumstances, be adequate to pay the principal of and interest on the 2008 Bonds when due. See "SPECIAL RISK FACTORS—Insufficiency of Special Taxes" herein.

Rate and Method of Apportionment of Special Taxes. Special Taxes are levied each fiscal year pursuant to the IA1 RMA and the IA2 RMA in order to meet the Special Tax Requirement, as described below. All capitalized terms used in this section shall have the meaning set forth in APPENDIX A-1 and APPENDIX A-2.

Improvement Area No. 1 Rate and Method

Under the IA1 RMA, all Taxable Property in Improvement Area No. 1 will be classified as Developed Property, Other Taxable Property or Undeveloped Property and will be subject to a Special Tax levy at the maximum rates described in Sections C and D of the IA1 RMA.

The Taxable Property within Improvement Area No. 1 consists of 349 residential units that have been classified under the IA1 RMA as Residential Property.

The Maximum Special Tax for an Assessor's Parcel of Developed Property will be the greater of: (i) the amount derived by application of the Assigned Special Tax; or (ii) the amount derived by application of the Backup Special Tax for such parcel. The Assigned Special Tax rates are set forth in Table 1 of the IA1 RMA. The Assigned Special Tax rate for Residential Property is \$792.63 per dwelling unit, plus \$1.2385 per square foot of Floor Area. The Backup Special Tax for each Assessor's Parcel of Developed Property is set forth in the Backup Special Tax Appendix to the IA1 RMA, and these amounts range from approximately \$2,100 to \$4,700.

Improvement Area No. 2 Rate and Method

Under the IA2 RMA, all Taxable Property in Improvement Area No. 2 will be classified as Developed Property, Other Taxable Property or Undeveloped Property, be assigned to one of three Zones and be subject to a Special Tax levy at the maximum rates described in Sections C and D of the IA2 RMA.

All of the Taxable Property within Improvement Area No. 2 is non-residential in nature and, although the IA2 RMA provides for taxation of residential property, only the provisions for the non-residential Special Taxes are summarized below.

An Assessor's Parcel will be classified as Developed Property if it is Taxable Property (other than Other Taxable Property) which was within a Final Map recorded prior to January 1 of the previous Fiscal Year and for which (i) a building permit for new construction was issued after March 1, 2001, but prior to March 1 of the previous Fiscal Year; or (ii) an Agency Certificate of Completion was executed prior to March 1 of the previous Fiscal Year. Developed Property within Improvement Area No. 2 will be further assigned to land use classes for Non-Residential Property and Hotel Property. The Maximum Special Tax for an Assessor's Parcel of Developed Property will be the greater of: (i) the amount derived by application of the Assigned Special Tax; or (ii) the amount derived by application of the Backup Special Tax for such parcel. The Assigned Special Tax rates are set forth in Section C of the IA2 RMA. The Assigned Special Tax rate for Non-Residential Property is \$0.4550 per square foot of Floor Area for Assessor's Parcels in Zone 1 and Zone 3, and \$1.1026 per square foot of Floor Area for Assessor's Parcels in Zone 2. The Assigned Special Tax rate for Hotel Property in Zone 3 is \$253.51 per room. The Backup Special Tax rates for Developed Property are \$14,882 per acre, \$53,053 per acre, and \$9,592 per acre for parcels in Zones 1, 2 and 3, respectively. The

Maximum Special Tax rates for Undeveloped Property and Other Taxable Property are \$14,882 per acre, \$53,053 per acre, and \$9,592 per acre for Assessor's Parcels in Zones 1, 2 and 3, respectively.

Method and Calculation of Annual Levy

After classifying the parcels, the City Council will determine the Special Tax Requirement (as defined in the IA1 RMA and IA2 RMA) for the fiscal year. "Special Tax Requirement" is defined in the IA1 RMA and IA2 RMA as the amount required in any Fiscal Year to: (i) pay debt service due in the calendar year which commences in such Fiscal Year on all Outstanding Bonds; (ii) pay periodic costs on the 2006 Bonds and 2008 Bonds, including, but not limited to, credit enhancement and rebate payments on the 2006 Bonds and 2008 Bonds; (iii) pay Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for all Outstanding Bonds; (v) pay directly for authorized facilities; (vi) pay for reasonably anticipated delinquent Special Taxes; less (vii) a credit for funds available to reduce the annual Special Tax levy.

Upon the issuance of the 2008 Bonds, the Rate and Method requires Special Taxes be levied in accordance with the following four steps: (1) Special Taxes are levied first on Developed Property in Improvement Area No. 1 in an amount equal to 100% of the applicable Assigned Tax rate, and on Developed Property in Improvement Area No. 2 in an amount equal to 100% of the applicable Assigned Tax rate; (2) if additional monies are needed to satisfy the Special Tax Requirement, then Special Taxes are to be levied proportionately on Undeveloped Property in Improvement Area No. 1 up to 100% of the Maximum Special Tax for Undeveloped Property and on Undeveloped Property in Improvement Area No. 2 up to 100% of the IA2 Maximum Special Tax for Undeveloped Property; (3) if additional monies are still needed to satisfy the Special Tax Requirement, for each parcel of Developed Property whose Maximum Special Tax rate is determined through the application of the Backup Special Tax in Improvement Area No. 1 and Improvement Area No. 2, the Special Tax shall be increased in equal percentages from the Assigned Special Tax rate applied in step 1 above to the Maximum Special Tax; and (4) if additional monies are still needed to satisfy the Special Tax Requirement, then Special Taxes are to be levied proportionately on Other Taxable Property in Improvement Area No. 1 and Improvement Area No. 2 at up to 100% the Maximum Special Tax for Other Taxable Property. See APPENDIX A-1—"IMPROVEMENT AREA NO. 1 RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES," and APPENDIX A-2—"IMPROVEMENT AREA NO. 2 RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES."

Notwithstanding the above, the City Council may, in any Fiscal Year, levy proportionately less than 100% of the Assigned Special Tax under step (1) of the preceding paragraph when (i) the City Council is no longer required to levy a Special Tax pursuant to step (2) above, (ii) all authorized bonds of the District have been issued or the City Council has covenanted not to issue other Parity Bonds (other than refunding bonds), and (iii) all Facilities identified in the Purchase and Finance Agreement between the Developer and the City have been acquired.

Notwithstanding the provisions of the Rate and Method allowing Residential Property to be taxed at the Maximum Special Tax rate, the Act provides that under no circumstances will the Special Taxes levied against any parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased by more than ten percent (10%) as a consequence of delinquency or default in payment of Special Taxes by any other parcel in the District.

Prepayment of Special Taxes. Under the Rate and Method, the owner of a parcel which is Developed Property or Undeveloped Property for which a building permit has been issued may voluntarily prepay the Special Tax obligation for a parcel in whole or in part. Any voluntary prepayment of Special Taxes will result in an extraordinary redemption of the 2008 Bonds, the 2006 Bonds and any Parity Bonds. See "THE 2008 BONDS—Redemption—*Extraordinary Redemption*."

Collection and Application of Special Taxes. The Special Taxes are levied and collected by the Treasurer-Tax Collector of the County in the same manner and at the same time as *ad valorem* property taxes. The District may, however, collect the Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

The District has made certain covenants in the Bond Indenture for the purpose of ensuring that the current maximum Special Tax rates and method of collection of the Special Taxes are not altered in a manner that would impair the District's ability to collect sufficient Special Taxes to pay debt service on the Bonds and any Parity Bonds and Administrative Expenses when due. First, the District has covenanted that, to the extent it is legally permitted to do so, it will only reduce the maximum Special Tax rates in accordance with the Bond Indenture and will oppose the reduction of maximum Special Tax rates by initiative where such reduction would reduce the maximum Special Taxes payable from Developed Property to less than 110% of the sum of estimated Administrative Expenses and Maximum Annual Debt Service on Outstanding Bonds and Parity Bonds. See "SPECIAL RISK FACTORS—Proposition 218." Second, the District has covenanted not to permit the tender of Bonds or any Parity Bonds in payment of any Special Taxes except upon receipt of a certificate of an Independent Financial Consultant that to accept such tender will not result in the District having insufficient Special Tax revenues to pay the principal of and interest on the Bonds and any Parity Bonds remaining Outstanding following such tender. See "SPECIAL RISK FACTORS—Non-Cash Payments of Special Taxes."

Although the Special Taxes constitute liens on Assessor's Parcels taxed within the District, they do not constitute a personal indebtedness of the owners of property within the District. Moreover, other liens for taxes and assessments already exist on the property located within the District and others could come into existence in the future in certain situations without the consent or knowledge of the City or the taxpayers in the District. See "SPECIAL RISK FACTORS—Parity Taxes, Special Assessments and Land Development Costs" herein. There is no assurance that the owners of interests in property subject to the Special Tax will be financially able to pay the annual Special Taxes or that they will pay such taxes even if financially able to do so, all as more fully described in the section of this Official Statement entitled "SPECIAL RISK FACTORS."

Under the terms of the Bond Indenture, all Special Tax revenues received by the District, other than Prepayments, are to be deposited in the Special Tax Fund. Special Taxes do not include any penalties and interest relating to delinquent payments of Special Taxes. Prepayments shall be deposited in the Redemption Account of the Special Tax Fund and will be applied on a pro rata basis to redeem Bonds and Parity Bonds. Special Tax revenues deposited in the Special Tax Fund are to be applied by the Trustee under the Bond Indenture in the following order of priority: (i) to pay Administrative Expenses up to an amount equal to the Administrative Expenses Cap for the current Bond Year; (ii) to pay the principal of and interest on the Bonds when due; (iii) to make required deposits in the Redemption Account; (iv) to replenish the Reserve Account to the Reserve Requirement; (v) to make any required transfers to the Rebate Fund; (vi) to pay any Administrative Expenses not paid under (i) above; and (vii) for any other lawful purpose of the District. See APPENDIX D—"SUMMARY OF BOND INDENTURE."

Special Taxes Are Not Within Teeter Plan. Section 4701 et seq. of the California Revenue and Taxation Code allows a county to adopt a tax distribution procedure which distributes taxes to taxing agencies on the basis of the amount of the tax levy, rather than on the basis of actual tax collections. This mechanism known as a "Teeter Plan." The Special Taxes are not subject to the County of San Diego Teeter Plan. The amount of Special Taxes available to pay debt service on the 2008 Bonds will depend on actual tax collections.

Proceeds of Foreclosure Sales. The Special Tax revenues pledged to the payment of principal of and interest on the 2008 Bonds under the Bond Indenture include the net proceeds, exclusive of penalties and interest, received following a judicial foreclosure sale of an interest in a parcel within the District resulting from a taxpayer's failure to pay the Special Taxes when due.

Pursuant to Section 53356.1 of the Act, in the event of any delinquency in the payment of any Special Tax or receipt by the District of Special Taxes in an amount which is less than the Special Tax levied, the City Council, as the legislative body of the District, may order that any delinquent Special Taxes be collected by a superior court action to foreclose the lien of the Special Tax within specified time limits. In such an action, the real property or leasehold interest therein subject to the unpaid amount may be sold at a judicial foreclosure sale. Under the Act, the commencement of judicial foreclosure following the nonpayment of a Special Tax is not mandatory. However, the District has covenanted for the benefit of the Owners of the 2008 Bonds that it will commence and diligently pursue to completion, judicial foreclosure proceedings against (i) Assessor's Parcels with delinquent Special Taxes in excess of \$10,000 or more by the October 1 following the close of the Fiscal Year in which such Special Taxes were due; and (ii) all Assessor's Parcels with delinquent Special Taxes by the October 1 following the close of any fiscal year in which the District receives Special Taxes in an amount which is less than 95% of the total Special Tax levied and the amount in the Reserve Account is less than the Reserve Requirement. See APPENDIX C—"SUMMARY OF BOND INDENTURE" herein.

If foreclosure is necessary and other funds (including amounts in the Reserve Account) have been exhausted, debt service payments on the 2008 Bonds could be delayed until the foreclosure proceedings result in the receipt of any foreclosure sale proceeds. Judicial foreclosure actions are subject to the normal delays associated with court cases and may be further slowed by bankruptcy actions, involvement by agencies of the federal government and other factors beyond the control of the City and the District. See "SPECIAL RISK FACTORS—Bankruptcy and Foreclosure" herein. Moreover, no assurances can be given that the interests in the property subject to foreclosure and sale at a judicial foreclosure sale will be sold or, if sold, that the proceeds of such sale will be sufficient to pay any delinquent Special Tax installment. See "SPECIAL RISK FACTORS—Property Values" herein. Although the Act authorizes the District to cause such an action to be commenced and diligently pursued to completion, the Act does not impose on the District or the City any obligation to purchase or acquire any interest in the property sold at a foreclosure sale if there is no other purchaser at such sale. The Act provides that, in the case of a delinquency, the Special Tax will have the same lien priority as is provided for *ad valorem* taxes.

Provisions Regarding Agency Leased Parcels. Thirty-one parcels of land within Improvement Area No. 2 of the District totaling approximately 70 net acres were ground leased by the Agency to the Developer. The Developer has assigned its rights under a number of the ground leases to various entities which own or expect to construct improvements on the ground leased parcels assigned to them. In the case of the ground leased parcels, the Special Tax is levied upon the leasehold interest created by the Agency and, in the event of a Special Tax delinquency, the foreclosure action will proceed against the leasehold interest only and not the fee interest.

A failure to pay any Special Taxes levied on a leasehold interest will constitute a default under the ground lease from the Agency. The Agency and the City have entered into a Cooperation Agreement which provides, in part, that the Agency will not take any action that results in a cancellation, surrender, rescission or termination (collectively, a "Termination") of the ground lease unless: (i) concurrently with the Termination the Agency enters into another lease or an assignment of the existing lease which results in the leased parcels remaining subject to the same annual Maximum Special Tax as prior to the Termination; or (ii) the Agency elects to pay to the City an amount equal to the Special Tax that would have been levied on the leased parcels absent such Termination until such time as a new lease is executed. The Cooperation Agreement provides that no Termination may occur without the express authorization of the governing body of the Agency and only upon 30 days notice to the District thereof. The Agency has covenanted in the Cooperation Agreement that all ground leases will have a term at least as long as the remaining term of any Bond or Parity Bond.

Agency Right of Reverter. Under the terms of a Disposition and Development Agreement between the Agency and the Developer, until the Agency has issued a Certificate of Completion with respect to a parcel, the Agency may exercise a right of reverter with respect to any parcel transferred in fee or by leasehold to the Developer should the Developer default in its obligations to the Agency, which includes an obligation to pay all taxes and Special Taxes when due. The right of reverter is subordinate to the lien of the Special Tax,

but a default in the payment of Special Taxes could result in the Agency exercising its right of reverter, with the Agency or a subsequent transferee of the Agency being obligated to pay the Special Tax. See "THE DEVELOPMENT AND PROPERTY OWNERSHIP—The Disposition and Development Agreement."

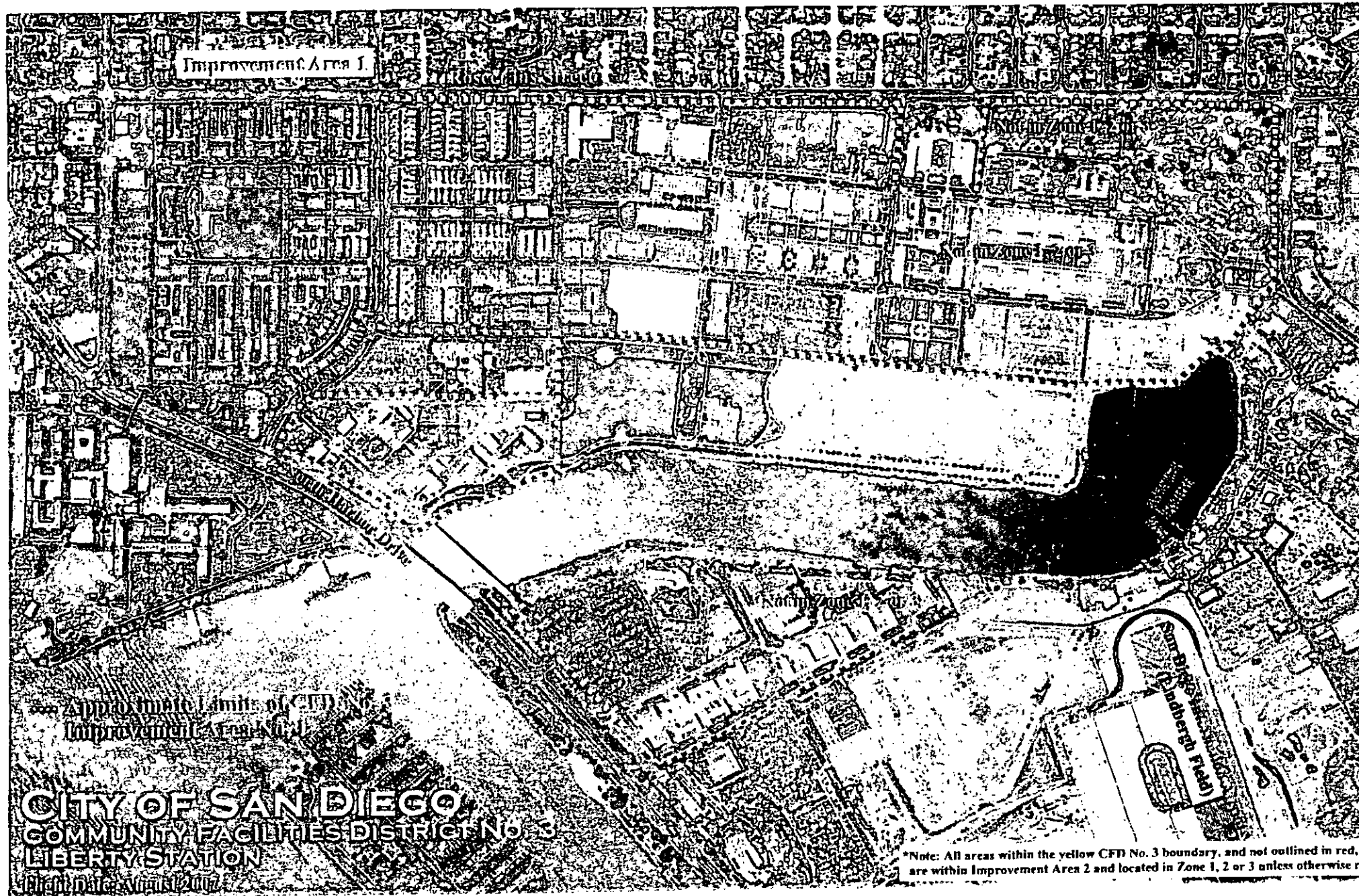
Reserve Account of the Special Tax Fund

In order to secure further the payment of principal of and interest on the Bonds and any Parity Bonds, the District is required, upon delivery of the 2008 Bonds, to deposit in the Reserve Account and thereafter to maintain in the Reserve Account an amount equal to the Reserve Requirement. The Bond Indenture provides that the amount in the Reserve Account shall, as of any date of calculation, equal the lesser of (i) 10% of the initial principal amount of the Bonds and any Parity Bonds; (ii) the maximum annual debt service on the then outstanding Bonds and any Parity Bonds; or (iii) one hundred twenty-five percent (125%) of average annual debt service on the Bonds and any Parity Bonds (the "Reserve Requirement").

Subject to the limits on the maximum annual Special Tax which may be levied in accordance with the Act within Improvement Area No. 1, as described in Appendix A-1, and Improvement Area No. 2, as described in Appendix A-2, the District has covenanted to levy Special Taxes in an amount that is anticipated to be sufficient, in light of the other intended uses of the Special Tax proceeds, to maintain the balance in the Reserve Account at the Reserve Requirement. Amounts in the Reserve Account are to be applied to (i) pay debt service on the Bonds and any Parity Bonds, to the extent other monies are not available therefor; (ii) redeem the Bonds and any Parity Bonds in whole or in part; and (iii) pay the principal and interest due in the final year of maturity of the Bonds and any issue of Parity Bonds. In the event of a prepayment of Special Taxes, under certain circumstances, a portion of the Reserve Account will be added to the amount being prepaid and be applied to redeem Bonds and any Parity Bonds. As described in the Rate and Method, the Reserve Fund Credit (as defined in the Rate and Method) will be equal to the expected reduction in the Reserve Requirement; provided, however, there will be no Reserve Fund Credit if the amount in the Reserve Account is less than the Reserve Requirement. See APPENDIX C—"SUMMARY OF BOND INDENTURE—Reserve Account of the Special Tax Fund" herein.

Issuance of Parity Bonds

Subject to the limitations set forth in the Bond Indenture, the District may, at any time after the issuance and delivery of the 2008 Bonds, and without the consent of the Owners of the 2008 Bonds, issue additional bonds ("Parity Bonds") payable from the Net Taxes and other amounts deposited in the Special Tax Fund (other than in the Administrative Expense Account therein) and secured by a lien and charge upon such amounts equal to the lien and charge securing the 2006 Bonds, the 2008 Bonds and any Parity Bonds theretofore issued pursuant to the Bond Indenture or under any Supplemental Indenture; provided that Parity Bonds may be issued only to refund outstanding 2006 Bonds, 2008 Bonds or Parity Bonds, and only if such refunding results in a reduction of Annual Debt Service.



Improvement Area 1

Approximate Limits of CFD No. 3
Improvement Area 2

CITY OF SAN DIEGO
COMMUNITY FACILITIES DISTRICT NO. 3
LIBERTY STATION

Flight Date: August 2007

*Note: All areas within the yellow CFD No. 3 boundary, and not outlined in red, are within Improvement Area 2 and located in Zone 1, 2 or 3 unless otherwise noted.

THE DISTRICT

General Description of the District

The District consists of approximately 242 gross acres of the former site of the U.S. Naval Training Center located approximately 2.5 miles northwest of downtown San Diego. Historically operated by the United States Navy as a training facility, all active military use of the training facility concluded in 1997, ending over seventy years of use of the property as a naval training center. The District is bordered on the east by the United States Marine Corps Recruit Depot and San Diego International Airport, on the south by Harbor Drive, the San Diego Bay and a new military housing complex constructed for the Department of Defense, and on the north and west by Rosecrans Street and existing neighborhoods.

A substantial portion of the land within the District is being redeveloped as part of the Liberty Station project pursuant to various land use entitlements and agreements approved by the City and the Agency. The land use entitlements for the District permit development pursuant to the Naval Training Center Precise Plan/Local Coastal Program (the "Precise Plan"). The Precise Plan, which includes certain land not within the District, provides for the development of 350 residential units, 495,000 square feet of educational uses, 380,000 square feet of new construction office and research park development, a mixed-use area with 324,000 square feet of commercial development, a 22-acre golf course, 301,000 square feet of arts and cultural uses, two hotels totaling 1,000 rooms, a 46-acre public park site and other open space and recreational uses, 130,000 square feet of ocean monitoring laboratories, a boat channel and 351,000 square feet for a Public Safety Training Center Institute.

The District is divided into two improvement areas: Improvement Area No. 1 and Improvement Area No. 2. Improvement Area No. 1 is located in the southwestern corner of the District, bordered by Rosecrans Street and Laning Road. Improvement Area No. 1 consists of approximately 32.48 gross acres and includes 349 residential units. Improvement Area No. 2 consists of approximately 209.32 gross acres and includes uses for education, office/research and development, open space, civic, arts and cultural facilities and two hotel sites.

The District is adjacent to the San Diego International Airport, Lindbergh Field. The Airport Authority serves as the airport operator for Lindbergh Field and the ALUC for San Diego County. The property within the District is subject to an air and aviation easement recorded by the County of San Diego and granted to the Airport Authority as the airport operator for Lindbergh Field. The District is within the Airport Influence Area for Lindbergh Field. A portion of the property within Improvement Area No. 2 is within the Runway Protection Zone ("RPZ") for Lindbergh Field. The Airport Authority has requested that all proposed development within the Airport Influence Area for Lindbergh Field, which the District is within, be submitted to the ALUC pursuant to California Public Utilities Code sections 21670 to 21679.5 for a determination of whether the proposed development is consistent with the adopted ALUCP for Lindbergh Field. For a discussion of the role of the Airport Authority concerning proposed development within the District, see "SPECIAL RISK FACTORS—Proximity to the San Diego International Airport."

Description of Authorized Facilities

The facilities authorized to be acquired or constructed by the District with the proceeds of the Bonds consist of various roadway, park and related improvements described in Table 1 below. Table 1, as shown below, lists each infrastructure improvement and its estimated cost. The proceeds of the Bonds may not be sufficient to fund all of the costs of the infrastructure improvements. It is currently expected that actual infrastructure improvement costs not funded with the proceeds of the Bonds will be funded by the Developer, subject to potential reimbursement by the Agency pursuant to the terms of the DDA between the Agency and the Developer. See "DEVELOPMENT AND PROPERTY OWNERSHIP—The Disposition and Development Agreement."

TABLE 1
ESTIMATED COSTS OF PROJECTS

<i>Project Description</i>	<i>Cost Estimate</i>
Park	\$ 14,313,074 ⁽¹⁾⁽²⁾
Street Improvements at Rosecrans and Lytton Streets	5,101,770 ⁽³⁾
Street Improvements at Harbor Drive	888,411 ⁽³⁾
Construction of Rosecrans Intersection at Nimitz	700,000
Signal Improvements at Laning/Cushing	300,000
Total	<u>\$ 21,303,255⁽⁴⁾</u>

⁽¹⁾ Excludes \$466,726 of costs related to an aquatic center for the park, certain costs of which the City may fund from Special Tax proceeds remaining each year after the payment of debt service on the Bonds.

⁽²⁾ \$8,736,504 of this amount has been disbursed for the acquisition of phase 1 of the park.

⁽³⁾ Facilities are complete. Represents actual amounts disbursed for acquisition of improvements.

⁽⁴⁾ Approximately \$20,313,074 has been made available or will be available from a combination of Special Tax proceeds, the proceeds of the 2006 Bonds and the 2008 Bonds and interest earnings to finance the cost of the Facilities, with the balance to be paid for by the Developer and/or the Agency.

Source: The Developer.

Estimated Direct and Overlapping Indebtedness

The land within the boundaries of Improvement Area No. 1 and Improvement Area No. 2 is served by numerous overlapping local agencies providing public services. Some of these local agencies have outstanding bonds which are secured by taxes and assessments on the parcels within the District and others have authorized but unissued bonds which, if issued, will be secured by taxes and assessments levied on parcels within the District.

The approximate amount of the direct and overlapping debt secured by taxes and assessments on the parcels within Improvement Area No. 1 and Improvement Area No. 2 for fiscal year 2007-08 is shown in Table 2 below (the "Debt Report").

The Debt Report has been derived from data assembled and reported to the District by David Taussig and Associates, Inc. Neither the District, the City, nor the Underwriters have independently verified the information in the Debt Report and do not guarantee its completeness or accuracy.

TABLE 2
DIRECT AND OVERLAPPING DEBT SUMMARY⁽¹⁾
CITY OF SAN DIEGO COMMUNITY FACILITIES DISTRICT NO. 3
IMPROVEMENT AREA NO. 1 AND IMPROVEMENT AREA NO. 2

<i>Overlapping District</i>	<i>FY 2007-08 Total Levy</i>	<i>Amount of Levy on Parcels in the District ⁽²⁾</i>	<i>Percent of Levy on Parcels in the District</i>	<i>Total Debt Outstanding ⁽³⁾</i>	<i>District Share of Total Debt Outstanding</i>
Improvement Area No. 1					
Metropolitan Water District G.O. Bond	\$ 107,058,798	\$ 10,946	0.0102%	\$ 359,115,000	\$ 36,717
City of San Diego Public Safety Comm. System	1,954,473	2,895	0.1481	8,170,000	12,100
San Diego Unified Bonds, Series A-G	74,470,184	146,118	0.1962	1,407,227,530	2,761,123
San Diego Community College Bond Series 2003, 2005 and 2006	33,807,103	66,649	0.1971	519,884,058	<u>1,024,931</u>
Subtotal					<u>\$ 3,834,871</u>
Improvement Area No. 2					
Metropolitan Water District G.O. Bond	\$ 107,058,798	\$ 3,969	0.0037%	\$ 359,115,000	\$ 13,314
City of San Diego Public Safety Comm. System	1,954,473	1,050	0.0537	8,170,000	4,388
San Diego Unified Bonds, Series A-G	74,470,184	52,984	0.0711	1,407,227,530	1,001,220
San Diego Community College Bond Series 2003, 2005 and 2006	33,807,103	24,168	0.0715	519,884,058	<u>\$ 371,655</u>
Subtotal					<u>\$ 1,390,577</u>
Estimated Share of Overlapping Debt Allocable to the District					\$ 5,225,448
Plus: 2006 Bonds ⁽⁴⁾					\$15,890,000
Plus: 2008 Bonds					<u>\$ 3,950,000*</u>
Estimated Share of Direct Debt Allocable to the District					\$19,840,000*
Estimated Share of Direct and Overlapping Debt Allocable to the District					\$25,065,448*

⁽¹⁾ Numbers may not add due to rounding.

⁽²⁾ Based on actual Fiscal Year 2007-08 tax bills.

⁽³⁾ Based on figures as of January 2, 2008.

⁽⁴⁾ Remaining outstanding principal as of January 2, 2008 for the 2006 Bonds.

Source: David Taussig & Associates, Inc.

* Preliminary, subject to change.

Expected Tax Burden

The estimated total tax burden on the residential units in each development within the District currently is less than 2% of the average assessed value of the units. Tables 3A, 3B and 3C below set forth an estimated property tax bill for typical single family detached units, rowhomes and condominium units in Improvement Area No. 1. The estimated tax rates and amounts presented herein are based on currently available information for fiscal year 2007-08. The actual amounts charged may vary and may increase in future years.

TABLE 3A
SAMPLE PROPERTY TAX BILL
PROJECTED FOR FISCAL YEAR 2007-08
FOR RESIDENTIAL UNITS IN IMPROVEMENT AREA NO. 1
(SINGLE FAMILY DETACHED HOMES)

<i>Assessed Valuation and Property Taxes</i>		<i>Percent of Total AV</i>	<i>Expected Amount</i>
Avg. Building Square Feet:	2,589 ⁽¹⁾		
ESTIMATED ASSESSED VALUE ⁽¹⁾	\$877,729		
Land Value	NA		
Improvement Value	NA		
AD VALOREM PROPERTY TAXES⁽²⁾			
Basic Levy		1.00000%	\$ 8,777.29
San Diego Unified Bond 1999A		0.00748	65.65
San Diego Unified Bond 2000B		0.00567	49.77
San Diego Unified Bond 2001C		0.00648	56.88
San Diego Unified Bond 2002D		0.00868	76.19
San Diego Unified Bond 2003E		0.01429	125.43
San Diego Unified Bond 1998F Refunding		0.00261	22.91
San Diego Unified Bond 1998G Refunding		0.00260	22.82
San Diego Unified Bond 2006 F-1 Refunding		0.00670	58.81
San Diego Unified Bond 2006 G-1 Refunding		0.00556	48.80
San Diego Community College Bond 2003B		0.00874	76.71
San Diego Community College Bond 2006A		0.01866	163.78
San Diego City Zoological Exhibits		0.00500	43.89
San Diego City Public Safety Communication Systems		0.00119	10.44
Metropolitan Water District		<u>0.00450</u>	<u>39.50</u>
Total General Property Taxes and Overrides		<u>1.09816%</u>	<u>\$ 9,638.87</u>
ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES			
MWD Water Standby Charge ⁽³⁾			\$ 11.50
Vector Disease Control ⁽⁴⁾			5.92
CWA Water Availability ⁽⁵⁾			10.00
Liberty Station Lighting Maintenance District ⁽⁶⁾			68.68
Mosquito Surveillance ⁽⁷⁾			3.00
City of San Diego CFD No. 3 (Liberty Station) IA No. 1 ⁽⁸⁾			<u>3,999.11</u>
Total Assessments and Parcel Charges			<u>\$ 4,098.21</u>
PROJECTED TOTAL PROPERTY TAXES			<u>\$ 13,737.08</u>
Projected Total Effective Tax Rate (as % of Estimated Assessed Value)			1.56507%

⁽¹⁾ Estimated average building square footage and assessed value for 80 units within Admiralty Row. Represents average assessed values for Fiscal Year 2007-08.

⁽²⁾ Based on rates for Fiscal Year 2007-08 for Tax Rate Area 008-254. Tax rates are subject to change.

⁽³⁾ Based on Fiscal Year 2007-08 rate of \$11.50 per dwelling unit for parcels less than one acre.

⁽⁴⁾ Based on Fiscal Year 2007-08 rate of \$5.92 per dwelling unit.

⁽⁵⁾ Based on Fiscal Year 2007-08 rate of \$10.00 per dwelling unit.

⁽⁶⁾ Based on Fiscal Year 2007-08 rate of \$68.68 per dwelling unit in Zone A.

⁽⁷⁾ Based on Fiscal Year 2007-08 rate of \$3.00 per dwelling unit.

⁽⁸⁾ Based on assigned special tax rate of \$792.63 per dwelling unit and \$1.2385 per square foot of floor area for residential property.

Source: David Taussig & Associates, Inc.

TABLE 3B

SAMPLE PROPERTY TAX BILL
PROJECTED FOR FISCAL YEAR 2007-08
FOR RESIDENTIAL UNITS IN IMPROVEMENT AREA NO. 1
(ROWHOMES)

<i>Assessed Valuation and Property Taxes</i>	<i>Percent of Total AV</i>	<i>Expected Amount</i>
Avg. Building Square Feet: 2.315 ⁽¹⁾		
ESTIMATED ASSESSED VALUE ⁽¹⁾	\$793,109	
Land Value	NA	
Improvement Value	NA	
AD VALOREM PROPERTY TAXES ⁽²⁾		
Basic Levy	1.00000%	\$ 7,931.09
San Diego Unified Bond 1999A	0.00748	59.32
San Diego Unified Bond 2000B	0.00567	44.97
San Diego Unified Bond 2001C	0.00648	51.39
San Diego Unified Bond 2002D	0.00868	68.84
San Diego Unified Bond 2003E	0.01429	113.34
San Diego Unified Bond 1998F Refunding	0.00261	20.70
San Diego Unified Bond 1998G Refunding	0.00260	20.62
San Diego Unified Bond 2006 F-1 Refunding	0.00670	53.14
San Diego Unified Bond 2006 G-1 Refunding	0.00556	44.10
San Diego Community College Bond 2003B	0.00874	69.32
San Diego Community College Bond 2006A	0.01866	147.99
San Diego City Zoological Exhibits	0.00500	39.66
San Diego City Public Safety Communication Systems	0.00119	9.44
Metropolitan Water District	<u>0.00450</u>	<u>35.69</u>
Total General Property Taxes and Overrides	<u>1.09816%</u>	<u>\$ 8,709.61</u>
ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES		
MWD Water Standby Charge ⁽³⁾		\$ 11.50
Vector Disease Control ⁽⁴⁾		5.92
CWA Water Availability ⁽⁵⁾		10.00
Liberty Station Lighting Maintenance District ⁽⁶⁾		68.68
Mosquito Surveillance ⁽⁷⁾		3.00
City of San Diego CFD No. 3 (Liberty Station) IA No. 1 ⁽⁸⁾		<u>3,659.76</u>
Total Assessments and Parcel Charges		<u>\$ 3,758.86</u>
PROJECTED TOTAL PROPERTY TAXES		<u>\$ 12,468.46</u>
Projected Total Effective Tax Rate (as % of Estimated Assessed Value)		1.57210%

⁽¹⁾ Estimated average building square footage and assessed value for 129 units within Beacon Point. Represents average assessed values for Fiscal Year 2007-08.

⁽²⁾ Based on rates for Fiscal Year 2007-08 for Tax Rate Area 008-254. Tax rates are subject to change.

⁽³⁾ Based on Fiscal Year 2007-08 rate of \$11.50 per dwelling unit for parcels less than one acre.

⁽⁴⁾ Based on Fiscal Year 2007-08 rate of \$5.92 per dwelling unit.

⁽⁵⁾ Based on Fiscal Year 2007-08 rate of \$10.00 per dwelling unit.

⁽⁶⁾ Based on Fiscal Year 2007-08 rate of \$68.68 per dwelling unit in Zone A.

⁽⁷⁾ Based on Fiscal Year 2007-08 rate of \$3.00 per dwelling unit.

⁽⁸⁾ Based on assigned special tax rate of \$792.63 per dwelling unit and \$1.2385 per square foot of floor area for residential property.

Source: David Taussig & Associates, Inc.

TABLE 3C

**SAMPLE PROPERTY TAX BILL
PROJECTED FOR FISCAL YEAR 2007-08
FOR RESIDENTIAL UNITS IN IMPROVEMENT AREA NO. 1
(CONDOMINIUMS)**

<i>Assessed Valuation and Property Taxes</i>	<i>Percent of Total AV</i>	<i>Expected Amount</i>
Avg. Building Square Feet: 1,276 ⁽¹⁾		
ESTIMATED ASSESSED VALUE ⁽¹⁾	\$505,119	
Land Value	NA	
Improvement Value	NA	
AD VALOREM PROPERTY TAXES ⁽²⁾		
Basic Levy	1.00000%	\$ 5,051.19
San Diego Unified Bond 1999A	0.00748	37.78
San Diego Unified Bond 2000B	0.00567	28.64
San Diego Unified Bond 2001C	0.00648	32.73
San Diego Unified Bond 2002D	0.00868	43.84
San Diego Unified Bond 2003E	0.01429	72.18
San Diego Unified Bond 1998F Refunding	0.00261	13.18
San Diego Unified Bond 1998G Refunding	0.00260	13.13
San Diego Unified Bond 2006 F-1 Refunding	0.00670	33.84
San Diego Unified Bond 2006 G-1 Refunding	0.00556	28.08
San Diego Community College Bond 2003B	0.00874	44.15
San Diego Community College Bond 2006A	0.01866	94.26
San Diego City Zoological Exhibits	0.00500	25.26
San Diego City Public Safety Communication Systems	0.00119	6.01
Metropolitan Water District	0.00450	22.73
Total General Property Taxes and Overrides	1.09816%	\$ 5,547.01
ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES		
MWD Water Standby Charge ⁽³⁾		\$ 11.50
Vector Disease Control ⁽⁴⁾		4.14
CWA Water Availability ⁽⁵⁾		10.00
Liberty Station Lighting Maintenance District ⁽⁶⁾		15.41
Mosquito Surveillance ⁽⁷⁾		3.00
City of San Diego CFD No. 3 (Liberty Station) IA No. 1 ⁽⁸⁾		2,372.96
Total Assessments and Parcel Charges		\$ 2,417.01
PROJECTED TOTAL PROPERTY TAXES		<u>\$ 7,964.03</u>
Projected Total Effective Tax Rate (as % of Estimated Assessed Value)		1.57666%

⁽¹⁾ Estimated average building square footage and assessed value for 140 units within Anchor Cove. Represents average assessed values for Fiscal Year 2007-08.

⁽²⁾ Based on rates for Fiscal Year 2007-08 for Tax Rate Area 008-254. Tax rates are subject to change.

⁽³⁾ Based on Fiscal Year 2007-08 rate of \$11.50 per dwelling unit for parcels less than one acre.

⁽⁴⁾ Based on Fiscal Year 2007-08 rate of \$5.92 per dwelling unit. A multifamily residence is considered 0.7 of a dwelling unit.

⁽⁵⁾ Based on Fiscal Year 2007-08 rate of \$10.00 per dwelling unit.

⁽⁶⁾ Based on Fiscal Year 2007-08 rate of \$20.55 per dwelling unit in Zone B. Multifamily residences are considered 0.75 dwelling units.

⁽⁷⁾ Based on Fiscal Year 2007-08 rate of \$3.00 per dwelling unit.

⁽⁸⁾ Based on assigned special tax rate of \$792.63 per dwelling unit and \$1.2385 per square foot of floor area for residential property.

Source: David Taussig & Associates, Inc.

Principal Taxpayers

Tables 4A and 4B below set forth the Special Taxes levied on property within the District for fiscal year 2007-08 and the Special Taxes projected to be levied in fiscal year 2008-09 based on the development status in the District as of January 2, 2008. The actual fiscal year 2008-09 Special Tax levy will be based on the development status of the land within the District as of March 1, 2008.

TABLE 4A*
PRINCIPAL TAXPAYERS FOR
FISCAL YEAR 2007-08

<i>Owner⁽¹⁾</i>	<i>Improvem ent Area</i>	<i>Land Use Class⁽²⁾</i>	<i>Number of Parcels</i>	<i>Fiscal Year 2007-08 Special Tax Levy</i>	<i>Percentage of Fiscal Year 2007-08 Special Tax Levy</i>
Individual Homeowners	1	Residential	349	\$ 1,124,345.78	68.82%
HTH Learning	2	School	5	89,477.12	5.48
Liberty Station HHG Hotel LP ⁽³⁾	2	Hotel	2	88,728.50	5.43
McMillin-NTC 903/904 LLC ⁽⁴⁾	2	Office	1	69,721.80	4.27
McMillin-NTC 901 LLC ⁽⁴⁾	2	Office	1	58,586.64	3.59
McMillin-NTC 906 LLC ⁽⁴⁾	2	Office	1	42,595.64	2.61
San Diego Foundation ⁽⁵⁾	2	Office	1	42,595.64	2.61
CDC Small Business Finance Corp.	2	Office	1	42,553.74	2.60
McMillin NTC 905 LLC ⁽⁴⁾	2	Office	1	42,553.74	2.60
Liberty Station-Harbor Retail LLC ⁽⁴⁾⁽³⁾	2	Shopping Center	4	10,645.64	0.65
NTC 195 Historical Rehab LLC ⁽⁴⁾⁽³⁾	2	Office	1	7,871.50	0.48
Truxtun LLC ⁽³⁾	2	Office	1	5,731.64	0.35
Liberty Station Marketplace LLC ⁽⁴⁾⁽³⁾	2	Retail/ Commercial	2	5,069.16	0.31
Sail Ho Golf Course LLC ⁽⁴⁾	2	Golf Course	1	2,639.00	0.16
San Diego Rock Church	2	School	1	655.20	0.04
Total			<u>372</u>	<u>\$ 1,633,770.74</u>	<u>100.00%</u>

⁽¹⁾ Ownership obtained from the County of San Diego Assessor's Roll as of January 1, 2007, except as otherwise noted.

⁽²⁾ Land use class is based on information provided by the Developer.

⁽³⁾ Based on ownership information provided by the County of San Diego as of January 1, 2007, this property is leased from the City of San Diego Redevelopment Agency.

⁽⁴⁾ Based on information provided by the Developer as of January 1, 2008. These entities may have some ownership interest in common with the Developer but such interest may not be a majority or controlling interest.

⁽⁵⁾ Updated ownership provided by the Developer as of January 2, 2008.

Source: David Taussig & Associates, Inc.

* Preliminary, subject to change.

TABLE 4B*
PROJECTED PRINCIPAL TAXPAYERS FOR
FISCAL YEAR 2008-09
BASED ON DEVELOPMENT STATUS
AS OF JANUARY 2, 2008

<i>Owner⁽¹⁾</i>	<i>Improvement Area</i>	<i>Land Use Class⁽²⁾</i>	<i>Number of Parcels</i>	<i>Fiscal Year 2008-09 Special Tax Levy⁽³⁾</i>	<i>Percentage of Fiscal Year 2008-09 Special Tax Levy</i>
Individual Homeowners	1	Residential	349	\$ 1,124,345.78	60.86%
McMillin-NTC LLC ⁽⁴⁾	2	Office	1	120,295.86	6.51
San Diego Rock Church	2	School	1	93,768.22	5.08
HTH Learning	2	School	5	89,477.12	4.84
Liberty Station HHG Hotel LP ⁽⁵⁾	2	Hotel	2	88,728.50	4.80
McMillin-NTC 903/904 LLC ⁽⁴⁾	2	Office	1	69,721.80	3.77
McMillin-NTC 901 LLC ⁽⁴⁾	2	Office	1	58,586.64	3.17
McMillin-NTC 906 LLC ⁽⁴⁾	2	Office	1	42,595.64	2.31
San Diego Foundation ⁽⁶⁾	2	Office	1	42,595.64	2.31
CDC Small Business Finance Corp	2	Office	1	42,553.74	2.30
McMillin-NTC 905 LLC ⁽⁴⁾	2	Office	1	42,553.74	2.30
Liberty Station-Harbor Retail LLC ⁽⁴⁾⁽⁵⁾	2	Shopping Center	5	10,776.68	0.58
NTC 195 Historical Rehab LLC ⁽⁴⁾⁽⁵⁾	2	Office	1	7,871.50	0.43
Truxtun LLC ⁽⁵⁾	2	Office	1	5,731.64	0.31
Liberty Station Marketplace LLC ⁽⁴⁾⁽⁵⁾	2	Retail/Commercial	2	5,069.16	0.27
Sail Ho Golf Course ⁽⁴⁾	2	Golf Course	1	2,639.00	0.14
Total			374	\$ 1,847,310.66	100.00%

(1) Ownership obtained from the County of San Diego Assessor's Roll as of January 1, 2007, except as otherwise noted.

(2) Land use class is based on information provided by the Developer.

(3) Based on development status as of January 2, 2008. Assumes taxes are levied on Developed Property at 100% of the Assigned Special Tax rate.

(4) Based on information provided by the Developer as of January 9, 2008. These entities may have some ownership interest in common with the Developer but such interest may not be a majority or controlling interest.

(5) Based on ownership information provided by the County of San Diego as of January 1, 2007, this property is leased from the City of San Diego Redevelopment Agency.

(6) Updated ownership provided by the Developer as of January 2, 2008.

Source: David Taussig & Associates, Inc.

* Preliminary, subject to change.

Delinquency History

Table 5 summarizes the Special Tax delinquencies for property within the boundaries of the District from Fiscal Years 2003-04 through the first of two installment payments in Fiscal Year 2007-08.

TABLE 5
SPECIAL TAX DELINQUENCY HISTORY

<i>Fiscal Year</i>	<i>Amount Levied</i>	<i>Parcels Levied</i>	<i>Fiscal Year-End Delinquencies⁽¹⁾</i>			<i>Delinquencies as of January 4, 2008</i>		
			<i>Parcels Delinquent</i>	<i>Amount Delinquent</i>	<i>Percent Delinquent</i>	<i>Parcels Delinquent</i>	<i>Amount Delinquent</i>	<i>Percent Delinquent</i>
2003-04 ⁽²⁾	\$ 447,150	61	0	\$ 0	0.00%	0	\$ 0	0.00%
2004-05	1,032,338	222	5	11,737	1.14	0	0	0.00
2005-06	1,369,292	332	6	14,789	1.08	1	4,055	0.30
2006-07	1,458,400	360	13	56,147	3.85	6	19,677	1.35
2007-08 ⁽³⁾	816,886	372	-	-	-	20	54,865	6.72

⁽¹⁾ The data is as of July 23, 2004 for Fiscal Year 2003-04; August 11, 2005 for Fiscal Year 2004-05; August 28, 2006 for Fiscal Year 2005-06; and as of August 8, 2007 for Fiscal Year 2006-07.

⁽²⁾ The District was formed on June 25, 2002 and levies commenced in Fiscal Year 2003-04.

⁽³⁾ The 2007-08 delinquency data reflects only the first installment of two installment payments required in the Fiscal Year. The first installment payments due were December 10, 2007. The second installment payments are due by April 10, 2008. The total amount of the second installments are estimated to be approximately \$816,886 and the total amount of levy for Fiscal Year 2007-08 is estimated to be approximately \$1,633,771.

Source: Debt Management, City of San Diego, based on reports from County of San Diego Assessor's office.

Estimated Assessed Value-to-Lien Ratios

Table 6 below sets forth the estimated assessed value-to-lien ratios for the property within the District subject to the Special Tax levy in fiscal year 2008-09, based upon the development status as of January 2, 2008, and the assessed values included on the fiscal year 2007-08 County Assessor's roll. The assessed value of such property within the District for fiscal year 2007-08 is \$381,349,611. The estimated assessed value-to-lien ratio of the property based upon the projected levy in fiscal year 2008-09, calculated as described in Table 6 below, is 15.01* to 1. The principal amount of the Bonds assigned in Table 6 below to the various property owners has been assigned by multiplying each of these property owner's estimated percentage share of the projected fiscal year 2008-09 Special Tax levy, based on development status as of January 2, 2008, by the principal amount of the Bonds.

* Preliminary, subject to change.

TABLE 6*
ESTIMATED ASSESSED VALUE-TO-LIEN RATIOS

Owner ⁽¹⁾	Fiscal Year 2008-09 Projected Special Tax ⁽²⁾	Percentage of Fiscal Year 2008-09 Projected Special Tax	Share of Bonds ⁽³⁾	Overlapping Debt ⁽⁴⁾	Total Direct and Overlapping Debt	Assessed Values ⁽⁵⁾	Estimated Assessed Value-to- Lien Ratio ⁽⁶⁾
Improvement Area No. 1 (Residential)							
Individual Owners	\$ 1,124,346	60.86%	\$ 12,075,403	\$ 3,834,871	\$ 15,910,273	\$ 243,246,123	15.29 to 1
Improvement Area No. 2 (Non-Residential)⁽⁷⁾							
Zone 1							
HTH Learning	\$ 89,477	4.84%	\$ 960,979	\$ 0	\$ 960,979	\$ 33,015,720 ⁽⁸⁾	34.36 to 1
Building 36	11,481	0.62	123,305	0	123,305	5,227,500 ⁽⁹⁾	42.39 to 1
Building 37	2,413	0.13	25,919	0	25,919	1,213,800 ⁽⁹⁾	46.83 to 1
Building 49	17,636	0.95	189,407	0	189,407	7,344,000 ⁽⁹⁾	38.77 to 1
Building 51	12,728	0.69	136,695	0	136,695	4,788,900 ⁽⁹⁾	35.03 to 1
Building 83	45,219	2.45	485,652	0	485,652	14,441,520 ⁽⁹⁾	29.74 to 1
Liberty Station Marketplace LLC ⁽¹⁰⁾	5,069	0.27	54,442	58,332	112,774	3,700,000	32.81 to 1
Building 27	1,434	0.08	15,403	39,413	54,816	2,500,000	45.61 to 1
Building 208	3,635	0.20	39,040	18,918	57,958	1,200,000	20.70 to 1
Sail Ho Golf Course LLC ⁽⁸⁾	2,639	0.14	28,343	22,869	51,212	1,450,610	28.33 to 1
NTC 195 Historical Rehab LLC (Bldg. 195) ⁽¹¹⁾	7,872	0.43	84,539	57,517	142,056	637,500 ⁽¹⁰⁾	4.49 to 1
San Diego Rock Church (Bldg. 94)	93,768	5.08	1,007,065	0	1,007,065	16,610,400 ⁽⁶⁾	16.49 to 1
Truxton LLC (Bldg. 67) ⁽¹¹⁾	5,732	0.31	61,557	42,567	104,124	443,700 ⁽¹⁰⁾	4.26 to 1
Zone 1 Subtotal	\$ 204,557	11.07%	\$ 2,196,925	\$ 181,285	\$ 2,378,210	\$ 55,857,930	23.49 to 1
Zone 2							
San Diego Foundation ⁽⁹⁾	\$ 42,596	2.31%	\$ 457,474	\$ 147,596	\$ 605,070	\$ 9,362,000	15.47 to 1
CIX Small Business Finance Corp	42,554	2.30	457,024	145,539	602,563	9,231,537	15.32 to 1
McMillin NTC 901 LLC	58,587	3.17	629,217	141,525	770,742	8,976,924	11.65 to 1
McMillin NTC LLC	120,296	6.51	1,291,970	27,232	1,319,202	1,727,318	1.31 to 1
McMillin NTC 903/904 LLC	69,722	3.77	748,808	205,677	954,485	13,046,134	13.67 to 1
McMillin NTC 905 LLC	42,554	2.30	457,024	136,679	593,704	8,669,580	14.60 to 1
McMillin NTC 906 LLC	42,596	2.31	457,474	122,087	579,561	7,743,973	13.36 to 1
Zone 2 Subtotal	\$ 418,903	22.68%	\$ 4,498,992	\$ 926,334	\$ 5,425,327	\$ 58,757,466	10.83 to 1
Zone 3							
Liberty Station HHG Hotel LLP ⁽¹¹⁾	\$ 88,729	4.80%	\$ 952,938	\$ 210,531	\$ 1,163,470	\$ 13,354,000	11.48 to 1
Hotel - 150 Rooms	38,027	2.06	408,402	112,975	521,377	7,166,000	13.74 to 1
Hotel - 200 Rooms	50,702	2.74	544,536	97,556	642,092	6,188,000	9.64 to 1
Liberty Station-Harbor Retail LLC ⁽¹¹⁾	10,777	0.58	115,741	72,427	188,168	4,953,800	26.33 to 1
Pad A	3,003	0.16	32,252	21,259	53,511	1,372,800	25.65 to 1
Pad B	3,003	0.16	32,252	20,768	53,020	1,372,800	25.89 to 1
Pad C	2,730	0.15	29,320	15,263	44,583	1,248,000	27.99 to 1
Pad D	1,910	0.10	20,509	13,769	34,278	873,400	25.48 to 1
Pad E	131	0.01	1,407	1,368	2,776	86,800	31.27 to 1
Zone 3 Subtotal	\$ 99,505	5.39%	\$ 1,068,679	\$ 282,958	\$ 1,351,637	\$ 18,307,800	13.54 to 1
IA No. 2 Subtotal	\$ 722,965	39.14%	\$ 7,764,597	\$ 1,390,577	\$ 9,155,174	\$ 132,923,196	14.52 to 1
Total	\$ 1,847,311	100.00%	\$ 19,840,000	\$ 5,225,448	\$ 25,065,448	\$ 376,169,319	15.01 to 1

⁽¹⁾ Unless otherwise noted, reflects ownership as of January 1, 2007. Figures reflect only property expected to be subject to the levy of the Special Tax in Fiscal Year 2008-09 based on building permits and/or certificates of completion issued as of January 2, 2008. Allocation of Bonds will vary as other properties are classified as Developed Property.

⁽²⁾ Figures are based on development status as January 2, 2008. Assumes taxes are levied on Developed Property at 100% of the Assigned Special Tax rate.

⁽³⁾ Allocated based on projected Fiscal Year 2008-09 levy.

⁽⁴⁾ Allocated based on actual Fiscal Year 2007-08 tax bills.

⁽⁵⁾ Figures represent assessed values for Fiscal Year 2007-08.

⁽⁶⁾ Figures represent Assessed Values column divided by the Total Direct and Overlapping Debt Column.

⁽⁷⁾ Figures represents gross Assessed Value. Net Assessed Value is valued at \$0 because of religious / educational exemptions. No *ad valorem* charges will be assessed, however, a Special Tax will be levied as allowed under the Rate and Method.

⁽⁸⁾ Updated ownership based on recorded ground leases as of January 2, 2008.

⁽⁹⁾ Updated ownership provided by McMillin, as of January 2, 2008.

⁽¹⁰⁾ Assessed value is currently being appealed by entities related to the Developer. Assessed value shown herein is based on the Assessor's recommended value, dated January 28, 2008, which is retroactively applied to the Fiscal Year 2006-07 roll and escalated 2% annually thereafter. Assessor's recommended value is lower than the assessed value as of January 1, 2007 as provided by the County of San Diego Assessor.

⁽¹¹⁾ Based on ownership provided by the County of San Diego as of January 1, 2007, this property is leased from the City of San Diego Redevelopment Agency.
Source: David Taussig & Associates, Inc.

* Preliminary, subject to change.

As a part of its Annual Report delivered pursuant to its Continuing Disclosure Certificate, the District will provide the estimated assessed value-to-lien ratio for all Developed Property by Improvement Area in the aggregate and, if Special Taxes have been levied on Undeveloped Property, on each owner of Undeveloped Property in Improvement Area No. 2.

THE DEVELOPMENT AND PROPERTY OWNERSHIP

The Developer and entities related to it have provided the information in this section. The following information regarding ownership of property in the District has been included because it is considered relevant to an informed evaluation of the 2008 Bonds.

No assurance can be given that the remaining proposed development within the District will occur as described below. As the remaining proposed development progresses and parcels are sold or leased, it is expected that the ownership of the land and leasehold interests in land within the District will become more diversified. No assurance can be given that development of the land within the District will continue to completion, or that it will occur in a timely manner or in the configuration or intensity described herein, or that any property owner described herein will obtain or retain ownership of any of the land within the District. The 2008 Bonds and the Special Taxes are not personal obligations of any property owners and, in the event that a property owner defaults in the payment of the Special Taxes, the District may proceed with judicial foreclosure but has no direct recourse to the assets of any property owner other than the property interest upon which the Special Tax is levied. As a result, other than as provided herein, no financial statements or information is, or will be, provided about any property owner. The 2008 Bonds are secured solely by the Special Taxes and other amounts pledged under the Indenture. See "SOURCES OF PAYMENT FOR THE BONDS" and "SPECIAL RISK FACTORS."

History of Development Plan

In 1993 the Federal Base Closure and Realignment Commission recommended closure of the U.S. Naval Training Center (the "NTC"). At that time, the City was designated as the local redevelopment agency responsible for the reuse of the NTC. In 1997, the City Council of the City approved and adopted the NTC site as a Redevelopment Project Area within the Agency's purview and approved a Redevelopment Plan for the Project Area.

In October 1998, the City approved a plan for the reuse of the Naval Training Center (the "Reuse Plan"). In August 1998, the City issued a request for proposals for a master developer to implement the Reuse Plan. In June 1999, the City selected the Corky McMillin Companies as the master developer. The redevelopment of the NTC is commonly referred to as the "Liberty Station" project. The Corky McMillin Companies established the Developer as an affiliated company under the name McMillin - NTC, LLC to carry out the functions of the master developer of Liberty Station.

In June 2000, the Agency and Developer entered into a Disposition and Development Agreement (the "DDA") to govern the terms of development and the City and Agency entered into a Cooperation Agreement (the "Cooperation Agreement") for the purpose of assigning responsibilities between the Agency and City for the redevelopment of the NTC and implementation of the DDA. See "DEVELOPMENT AND PROPERTY OWNERSHIP—The Disposition and Development Agreement."

In 2001, the City approved the Precise Plan (known as the "Naval Training Center Precise Plan and Local Coastal Program") and the California Coastal Commission certified the Precise Plan as an amendment to the City's Local Coastal Plan. The Precise Plan, which includes land not within the District, provides for 350 residential units; 495,000 square feet of educational uses; 380,000 square feet of new construction office and research park development; a mixed-use area with 324,000 square feet of commercial development a 22-acre golf course and 301,000 square feet of civic, arts and cultural uses; two hotels totaling 1,000 rooms; a 46-acre

public park site and other open space and recreational uses; 130,000 square feet of ocean monitoring laboratories; a boat channel; and 351,000 square feet for a Public Safety Training Institute.

In 2001, a portion of the NTC consisting of 66 buildings and structures was listed on the National Register of Historic Places as a Historic District. These buildings and structures, a portion of which are located in Improvement Area No. 2, are required to be rehabilitated in accordance with the terms of the DDA.

Pursuant to the Reuse Plan, the DDA and the Cooperation Agreement, property within the NTC has been conveyed from the United States to the City, from the City to the Agency, from the Agency to the Developer and, as to certain of the property conveyed to it, from the Developer to third parties in a series of transactions. See “DEVELOPMENT AND PROPERTY OWNERSHIP—Property Ownership” for a summary of the current ownership.

The Disposition and Development Agreement

The DDA establishes an agreement between the Agency and Developer for the redevelopment of the NTC. The DDA contemplates two general types of improvements to be constructed in connection with the redevelopment of the NTC, “horizontal improvements” and “vertical improvements.” Horizontal improvements are those that are typical of a public agency’s infrastructure, such as streets, utilities, parks and storm drains. Vertical improvements include the rehabilitation of existing buildings, the construction of new buildings and other construction activity that is typically characterized as private improvements to real property. See “—Status of Development” herein.

The DDA defines four phases in the development of each parcel within the District. Phase One is the period between execution of the DDA and conveyance of the parcel to the Agency. Phase Two is the period of time commencing upon the Agency’s acquisition of the parcel and ending upon conveyance of the parcel to the Developer. (For purposes of this Official Statement, unless otherwise indicated, the term “conveyance” shall mean the transfer of a fee simple interest in a parcel pursuant to a grant deed or a leasehold interest in a parcel pursuant to a long-term ground lease.) Phase Three is the period of time commencing upon conveyance of a parcel by the Agency to the Developer and ending upon the conveyance of the parcel by the Developer to a third party. Phase Four is the period of time commencing upon the conveyance of a parcel by the Developer to a third party and ending essentially upon the completion of the vertical improvements on the parcel as evidenced by the Agency’s issuance of a “Certificate of Completion.”

The DDA establishes various preconditions for the conveyance of a parcel from the Agency to the Developer (the “Phase Three Conditions Precedent”) and for the conveyance of a parcel from the Developer to a third party (the “Phase Four Conditions Precedent”). All of the Phase Three Conditions Precedent have been satisfied by the Developer. The Phase Four Conditions Precedent remain applicable to two parcels (Building 902 and the East Hotel District).

The Phase Four Conditions Precedent include the following conditions, among others:

- all applicable Phase Three Conditions Precedent have been satisfied;
- the Agency has approved the third party to whom the parcel is to be conveyed;
- all horizontal improvements required for the parcel and those vertical improvements in the Historic Core and in the Educational Core required to be completed or rehabilitated have been completed or bonded for;
- the Developer or third party has provided payment and performance bonds guaranteeing completion of the vertical improvements to the parcel; and

- evidence of financing to construct the vertical improvements on the parcel.

In addition, prior to the Agency's issuance of a Certificate of Completion with respect to a parcel, the parcel is subject to a right of reverter which allows the Agency to re-enter the parcel and which vests in the Agency the fee title or leasehold interest in the parcel conveyed to the Developer or any third party if the Developer, or a third party assignee, defaults or fails to perform its obligations under the DDA. The Agency and the Developer entered into a First Implementation Agreement, dated May 9, 2002, which provides that the Agency's right of reverter shall be subordinate to the Special Tax lien of the District upon the Developer posting certain security with the Agency. The Developer is required to post this security as a consideration to the issuance of the 2008 Bonds. As a result, should the Agency exercise its right of reverter as to a parcel, the parcel shall remain subject to the Special Tax lien and the Agency, or any subsequent transferee, shall remain obligated to pay the Special Tax.

All residential units in Improvement Area No. 1 have been sold to end users and are no longer subject to the right of reverter by the Agency. As of January 2, 2008, approximately 79.19 acres of the 125.38 acres in Improvement Area No. 2 that could be taxed under the IA2 RMA remained subject to the right of reverter, of which approximately 63.46 acres were owned by the Developer or its related entities.

The DDA includes a Schedule of Outside Performance Dates ("Performance Schedule") which, among other things, establishes outside dates for the completion of various vertical and horizontal improvements and the satisfaction of Phase Three Conditions Precedent and Phase Four Conditions Precedent relating to specific parcels and map areas within Liberty Station. The Developer's or its assignees' failure to satisfy its obligations in accordance with the Performance Schedule could result in the Agency's exercise of its right of reverter with respect to all parcels subject to the right of reverter at that time. The performance dates in the Performance Schedule are subject to extension by mutual agreement of the parties and pursuant to the force majeure provisions of the DDA. The Agency has represented that the Developer and the Developer's assignees are currently in compliance with the Performance Schedule and are not in breach of any obligations under the DDA.

The Agency will receive a share of the real property taxes generated from the NTC Project Area through the collection of real property tax increment pursuant to the California Redevelopment Law. The Agency has agreed to repay certain costs incurred by the Developer for horizontal improvements from such tax increment revenues. Under the California Redevelopment Law, all tax increment revenues received by the Agency from the NTC Project Area must be utilized for the benefit of the NTC Project Area. Pursuant to the DDA, the Agency may also receive a share of the Developer's profits derived from the development of Liberty Station. Neither the tax increment revenues nor profit share received by the Agency is pledged to repayment of the Bonds.

Property Ownership

There are currently a number of owners of taxable property interests within the District upon which the Special Tax is expected to be levied to repay the Bonds, consisting of the Developer and entities related to the Developer, third parties unrelated to the Developer and 349 individual homeowners. See Tables 4A and 4B above. See "THE DISTRICT—Principal Taxpayers; Maximum Special Tax Capacity."

The Developer. The Developer was formed in 1999 for the purpose of owning, developing, improving, and ultimately selling or leasing the property in Liberty Station. The two members of the Developer are the McMillin Companies, LLC ("McMillin Companies") and Merced Partners LP, a Delaware limited partnership. McMillin Companies is the managing member.

The Corky McMillin Companies ("McMillin") was founded in 1960 by Corky McMillin, who led the company until his death in September 2005. McMillin remains a privately held entity beneficially owned entirely by the McMillin family and managed by Corky's sons Mark and Scott McMillin. McMillin operates

in five areas including land development, home building, commercial, realty, and mortgage. McMillin is San Diego's largest and oldest, privately owned, locally based developer of mixed-use projects. McMillin Companies is one of the McMillin entities.

The other member of the Developer, Merced Partners LP ("Merced Partners") is an investment fund managed by EBF and Associates. EBF and Associates is an investment management firm based in Minnesota.

McMillin has developed several master planned communities in Southern California including Scripps Ranch, Rancho Del Rey, Bonita Long Canyon, Orange Crest, Temeku Hills, Calavera I and McMillin Lomas Verdes.

As of January 1, 2008, the Developer or other entities which are owned or controlled by McMillin or in which McMillin has an ownership interest have either a fee or leasehold interest in approximately 85 acres in Improvement Area No. 2. Of this acreage, 42 acres are classified as Developed Property, 11 acres are under active development by the Developer, 17 acres are in escrow for sale or sublease to third parties, and 15 acres are non-taxable common area. Although the Developer plans to develop its additional acreage within Improvement Area No. 2 in accordance with the DDA and the Precise Plan, investors should not rely on future development occurring within Improvement Areas No. 1 and 2 in the near future in evaluating an investment in the 2008 Bonds.

Land Use Entitlements

The City has approved for Liberty Station all necessary zoning, the Reuse Plan, the Precise Plan, Vesting Tentative Map No. 99-1076 and a Master Plan Development Permit/Coastal Development Permit. The City has approved final maps creating all of the buildable residential lots in Improvement Area No. 1, which have subsequently been developed and sold to individual homeowners. The City has also approved final maps creating conveyable nonresidential lots in the remainder of the property included within Improvement Area No. 2 of the District.

The City Council certified an Environmental Impact Report/Environmental Impact Statement for the Reuse Plan in 1998. The City Council certified an Environmental Impact Report for the NTC Redevelopment Project Area in 2000 and adopted a Mitigated Negative Declaration for the Precise Plan and other entitlements for Liberty Station in 2000.

A Planned Development Permit for a 650-room full service hotel is in process on NTC Unit 8 (the East Hotel). In July 2007, the Airport Authority, as the ALUC, determined that the proposed hotel is conditionally consistent with the Airport Land Use Compatibility Plan for Lindbergh Field. The hearing for the approval of this hotel at Planning Commission, City Council and at the California Coastal Commission is expected to be in mid 2008. Miller Global of Denver is in escrow to purchase the 66-year ground lease and build the hotel if the project is approved and when building permits are ready to be issued. The hotel is expected to be a Nickelodeon Hotel operated by Marriott. The close of escrow and start of construction is anticipated in Fall 2008.

Status of Development

Horizontal Improvements. The public infrastructure required to be installed consists primarily of onsite and offsite road improvements, underground water and sewer, storm drains, curbs, gutters and sidewalks and a 46-acre public park.

All in-tract infrastructure has been completed for Improvement Area No. 1. As of January 1, 2008, in-tract infrastructure for Improvement Area No. 2 was approximately 95% complete, with only storm drain outfalls and limited work in Unit 8 (the east hotel) to be completed.

The Developer has completed all of the construction of improvements to Rosecrans Street widening and landscaping and the Lytton Avenue/Rosecrans Street intersection. The Developer has also completed all of the construction of improvements on the Harbor Drive/Lee Street intersection. No construction work has begun on improvements to the Rosecrans Street/Nimitz Boulevard intersection, or the Laning Road/Cushing Drive traffic signal improvements.

The 46-acre waterfront park will be built in two phases. The construction plans have been designed and approved for the entire park. Construction of Phase 1 consisting of 18 acres is complete and has been turned over to the City of San Diego Park and Recreation Department. The park was opened to the public in July 2007. Construction of Phase 2 of the park, consisting of the remaining 28 acres is anticipated to start 30 days after the issuance of the 2008 Bonds and be completed within 18 months of commencement of construction. Phase 2 of the park is expected to be financed, in part, from proceeds of the 2008 Bonds and from other District funds. See Table 1.

Vertical Improvements

Improvement Area No. 1. All 349 building permits have been issued and all 349 residential units have been built and closed to individual homeowners. See "SPECIAL RISK FACTORS—Hazardous Substances" below for a discussion regarding the existence and removal of mold in some of the condominium units in the District.

Improvement Area No. 2. There are numerous smaller "sub-areas" in Improvement Area No. 2 that the Developer has established. Such sub-areas include Retail/Commercial (Marketplace, Shoreline Plaza & Sellers Plaza), Office (Office District & John & Alice Finn Office Plaza), Educational and Hotel East & West.

Mixed Use Retail/Commercial District. Liberty Station Marketplace is located between Roosevelt Road and Womble Road on the east side of Truxtun Road. McMillin-NTC, LLC assigned its leasehold interest in Buildings 27, 28, 29, and 208, and its fee interest in Building 30 to Liberty Station Marketplace, LLC, who is currently renovating the buildings for a community serving shopping center comprising 164,012 square feet. Building 208, the chapel, is complete and in use as a community event center. Buildings 27, 28, 29 and 30 shell improvements are complete, and Trader Joe's, Starbucks, Coldstone Creamery, Panera Bread, Point Loma Board Room, Postal Annex, DaKine's, La Salsa, Navy Federal Credit Union, Jacob & Spadea Jewelers, Rose's Nails, The Candle Factory, Sammy's Woodfired Pizza and Vons are open. As of January 1, 2008, the Marketplace is 56% opened and 62% leased.

Sail Ho Golf Course is located at the corner of Rosecrans Street and Lytton Avenue. McMillin NTC, LLC has renovated the 9-hole golf course and the two historic structures, Building 9 (3,181 square feet) and Building 10 (2,771 square feet), and closed escrow to Sail Ho Golf Course, LLC on August 15, 2007. Building 9 is leased to a Wine Steals for a term of five years. Building 10 is leased to CSC Golf Management for a period of two years. The golf course opened for public play as of September 30, 2006.

Building 193 is a 47,841 square foot building that has been transferred from McMillin NTC, LLC to McMillin-NTC 193, LLC in December 2006. The historic building is undergoing major renovation for adaptive reuse, with 50% being leased by Ace Hardware. The Precise Plan shows that Building 193 is in the RPZ for Lindbergh Field. In January 2008, the Airport Authority determined that the Ace Hardware retail use is consistent with the Airport Land Use Compatibility Plan for Lindbergh Field. The balance of the space will include retail/restaurant space and second floor office space. The Precise Plan requires that any additional future uses for Building 193 be submitted to the Airport Authority. The building is expected to be ready for occupancy in early 2008. For a discussion of the role of the Airport Authority concerning proposed development within the District, see "SPECIAL RISK FACTORS—Proximity to the San Diego International Airport."

Building 210 is a 41,493 square foot fitness facility which is undergoing major renovations. McMillin-NTC, LLC closed escrow with Liberty Station 210 Investors, LLC in October 2007. As of January 1, 2008, 22,914 square feet was leased to a major fitness operator, and the building is approximately 75% leased or committed. The building is expected to include fitness and wellness related tenants. The building is expected to be fully renovated and ready for use in early 2008.

NTC Landing includes Buildings 1, 8, 11, 23, 24, 32 and 194 at the north end of Liberty Station comprising 104,856 square feet. Buildings 1, 8, 23, 32 and 194 are in the RPZ for Lindbergh Field as shown in the Precise Plan and the Airport Layout Plan for Lindbergh Field. The historic buildings are undergoing major renovation for adaptive reuse to restaurant and retail uses. As required by the Precise Plan, any proposed uses for these buildings in the RPZ will be submitted to the Airport Authority. The property closed escrow to McMillin-NTC Landing, LLC in October 2007. This property is expected to be completed in mid-2008. As of January 1, 2008, leases or letters of intent were in place for approximately 23% of the project. For a discussion of the role of the Airport Authority concerning proposed development within the District, see "SPECIAL RISK FACTORS—Proximity to the San Diego International Airport."

Shoreline Plaza is a group of 6 buildings (Buildings 31, 34, 153, 179, 185, and 358) comprising 31,686 square feet. McMillin NTC, LLC sold the property in two transactions to Ocean Village Associates, LLC and SEAPRO, LLC in September 2007. The buildings are undergoing renovations with completion and first occupancy expected in early 2008. The buildings are 85% leased and will be used as a waterfront village including retail, light industrial and food uses. These six buildings are in the RPZ for Lindbergh Field as shown in the Precise Plan and Airport Layout Plan. In January 2008, the Airport Authority determined that manufacturing uses in Buildings 31, 153, and 185 are conditionally consistent with the Airport Land Use Compatibility Plan for Lindbergh Field. As part of the conditions, the Airport Authority limited the total occupancy for these buildings and required that notices be placed in the buildings to inform the occupants that the buildings are in the RPZ. The Precise Plan requires that any proposed uses for Buildings 34, 179, and 358 in Shoreline Plaza be submitted to the Airport Authority. Such buildings will likely be subject to conditions similar to those imposed on Buildings 31, 153 and 185. For a discussion of the role of the Airport Authority concerning proposed development within the District, see "SPECIAL RISK FACTORS—Proximity to the San Diego International Airport."

West Hotel District. The Unit 7 site was entitled for 350 hotel rooms. McMillin-NTC, LLC sold the property to HHG Liberty Station, LLC to develop a 150-room Hilton Homewood Suites and a 200-room Marriott Courtyard. The Hilton is complete and opened in September 2007. The Marriott is under construction and is due to open in April 2008.

The Unit 7 Harbor Square Retail Center comprises 23,997 square feet of retail space in five buildings. Four buildings are complete and 100% leased to tenants that include Oggi's Pizza and Brewery, Subway, Los Primos, Dinner Studio, Starbucks, Rose's Nails and Sushiya. The fifth building is a 600 square foot retail kiosk that will be constructed in early 2008.

Building 623 is held in a 66-year ground lease by McMillin NTC, LLC. The building comprises 32,961 square feet and was constructed in 1992 by the Navy. The property has been renovated and opened as a Conference Center.

Office District. Building 901 is a 53,135 square foot office building. The lot was sold from McMillin NTC, LLC to McMillin-NTC 901, LLC. The building is complete and is currently 100% leased. The building is occupied by Mitre Corporation and Cubic Defense Corporation.

Building 902 is entitled as a 109,102 square foot office building. Building permits are issued. Approximately 75% of the building is under a letter of intent with an undisclosed tenant. McMillin-NTC, LLC is in escrow with McMillin-NTC 902, LLC, with escrow expected to close and construction to start in early 2008.

Buildings 903 and 904 are respectively 63,234 and 38,594 square foot office buildings. The lots were sold from McMillin-NTC, LLC to McMillin-NTC 903/904, LLC. Building 903 is occupied by the Corky McMillin Companies as its corporate headquarters. Building 904 is fully leased, and was sold to CDC Small Business Finance Corp. in June 2004, which occupies approximately 33% of the building.

Building 905 is comprised of 38,594 square foot office space. The lot was sold from McMillin-NTC, LLC to McMillin-NTC 905, LLC. Construction is complete and the building is 83% leased with tenants including TriWest, Gnostech, Ir2 Squared, Aradiant and Leo Sullivan. Another 11% is under a letter of intent.

Building 906 is comprised of 38,632 square foot office space. The lot was sold from McMillin-NTC, LLC to McMillin-NTC 906, LLC. Construction of the building was completed in June 2006. The law firm of Stutz Artiano Shinoff & Holt purchased a 30% interest in McMillin-NTC 906, LLC in September 2007. Stutz Artiano occupies the second floor and the first floor will be leased.

Building 907 is comprised of 38,632 square foot office space. The lot was sold from McMillin-NTC, LLC to McMillin-NTC 907, LLC. Construction of the building was completed October 2006. San Diego Foundation purchased the building in November 2006. San Diego Foundation occupies the second floor and the first floor will be leased to other related organizations.

Buildings 6/7 (a single building) and 195, named the John and Alice Finn Office Plaza, are held in a 66-year ground lease. The historic buildings were renovated to a modern warm shell office interior. The buildings are currently 51% leased. Building 6/7 lease was sold to Truxtun, LLC and is occupied by Countywide Mortgage. Building 195 is in escrow with the Cohn Restaurant Group and expected to close early 2008.

Education District. High Tech High Villages has purchased and renovated Buildings 36, 37, 49, 51 and 83, for a total of 196,653 square feet. These five buildings are occupied by Explorer Elementary School, High Tech Middle School, High Tech Middle Media Arts, High Tech High School, High Tech High International and High Tech High Media Arts.

Rock Church and Academy has purchased and renovated Building 94 for a total of 206,084 square feet. It is in escrow to purchase Building 271, a former gym, and intends to close escrow and begin renovating it for physical education programs in Spring 2009.

Potential Limitations on Development

The Airport Authority has recently raised objections to the development of certain parcels within the District which could slow or prevent the planned development. The District's proximity to Lindbergh Field and the Airport Authority's review of certain proposed development within the District could slow or prevent further development in Improvement Area No. 2. See "SPECIAL RISK FACTORS—Proximity to the San Diego International Airport."

Financing Plan

Developer Financing Plan. Additional expenditures will be required to complete the planned development of the property within the District. Certain of the horizontal infrastructure improvements will be completed by the Developer, with the balance of the expenditures to complete the development of the property within the District being funded by the owners or lessees of the parcels being renovated or developed.

As of December 31, 2007 the Developer has expended approximately \$105,800,000 for horizontal infrastructure improvements within the District. The Developer expects to expend approximately an additional \$17,000,000 to complete the horizontal infrastructure improvements. The Developer expects to complete all horizontal infrastructure improvements for the District, expect for the park and six storm drain outfalls,

between January 1, 2008 and December 31, 2008. The Developer expects to complete the construction of six storm drain outfalls and the park by the end of 2009. The Developer has obtained an acquisition and development loan from Indymac Bank. The loan was originally a revolving loan but has been converted to a non-revolving loan. The total commitment amount of the loan is \$15,000,000 of which \$4,000,000 was outstanding as of December 31, 2007. The loan matures June 1, 2008. The Developer expects to fund the remaining costs of the horizontal infrastructure improvements it will construct from one or a combination of the funding sources available to it, including cash on hand, 2008 Bond and prior bond proceeds, special tax proceeds, proceeds from the sale and lease of property by the Developer, and proceeds of the existing loan. The Developer believes that it will have adequate funds with which to complete the horizontal infrastructure improvements.

SPECIAL RISK FACTORS

The purchase of the 2008 Bonds involves significant investment risks and, therefore, the 2008 Bonds are not suitable investments for many investors. The following is a discussion of certain risk factors which should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the 2008 Bonds. This discussion does not purport to be comprehensive or definitive. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in Improvement Area No. 1 and/or Improvement Area No. 2 to pay their Special Taxes when due. Such failures to pay Special Taxes could result in the inability of the District to make full and punctual payments of debt service on the 2008 Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in Improvement Area No. 1 and Improvement Area No. 2 and the value of the 2008 Bonds in the secondary market.

Principal Taxpayers

Based on the ownership of the land within the District as of January 2, 2008, approximately 60.86%* of the projected Special Taxes for fiscal year 2008-09 is payable by the owners of individual homes, 19.49%* by entities related to the Developer, 5.08%* by San Diego Rock Church, 4.84%* by HTH Learning and 4.80%* by Liberty Station HHG Hotel LP. See "THE DISTRICT—Principal Taxpayers; Maximum Special Tax Capacity." Any failure of these landowners, or any successor thereof, to pay the annual Special Taxes when due could result in a default in payments of the principal of, and interest on, the 2008 Bonds, when due. See "SPECIAL RISK FACTORS—Failure to Develop Properties" below.

No assurance can be given that the existing landowners, or their successors, will pay Special Taxes in the future or that they will be able to pay such Special Taxes on a timely basis. See "SPECIAL RISK FACTORS—Bankruptcy and Foreclosure" below, for a discussion of certain limitations on the District's ability to pursue judicial proceedings with respect to delinquent parcels.

Limited Obligations

The 2008 Bonds and interest thereon are not payable from the general funds of the City. Except with respect to the Special Taxes, neither the credit nor the taxing power of the District or the City is pledged for the payment of the 2008 Bonds or the interest thereon, and, except as provided in the Bond Indenture, no owner of the 2008 Bonds may compel the exercise of any taxing power by the District or the City or force the forfeiture of any City or District property. The principal of, premium, if any, and interest on the 2008 Bonds are not a debt of the City or a legal or equitable pledge, charge, lien or encumbrance upon any of the City's or the District's property or upon any of the City's or the District's income, receipts or revenues, except the Special Taxes and other amounts pledged under the Bond Indenture.

* Preliminary, subject to change.

Insufficiency of Special Taxes

Under the Rate and Method, the annual amount of Special Tax to be levied on each taxable parcel in the District will generally be based on whether such parcel is categorized as Developed Property, Undeveloped Property, or Other Taxable Property, and on the land use class to which a parcel of Developed Property is assigned. See APPENDIX A-1—"IMPROVEMENT AREA NO. 1 RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES;" APPENDIX A-2—"IMPROVEMENT AREA NO. 2 RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES" and "SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—*Rates and Method of Apportionment of Special Taxes.*"

The Maximum Special Taxes that may be levied within the District as well as the Maximum Special Taxes that may be levied on the property within the District are equal to at least 110% of Maximum Annual Debt Service on the Bonds. Notwithstanding that the Maximum Special Taxes that may be levied in the District exceeds debt service due on the Bonds, the Special Taxes collected could be inadequate to make timely payment of debt service either because of nonpayment or because property becomes exempt from taxation.

The Rate and Method governing the levy of the Special Tax expressly exempts up to 15.54 acres of City/Agency Property, Other Public Property and/or Property Owner Association Property in Improvement Area No. 1 and up to 122.36 acres of City/Agency Property, Free Standing Parking Property, Other Public Property and/or Property Owner Association Property in Improvement Area No. 2 that is in a Zone and up to 18.04 acres of Golf Course Property that is within a Zone. If for any reason property within the District becomes exempt from taxation by reason of ownership by a non-taxable entity such as the federal government, another public agency or other organization determined to be exempt, subject to the limitations of the maximum authorized rates, the Special Tax will be reallocated to the remaining taxable properties within the District. This could result in certain owners of property paying a greater amount of the Special Tax and could have an adverse impact upon the ability and willingness of the owners of such property to pay the Special Tax when due.

The Act provides that, if any property within the District not otherwise exempt from the Special Tax is acquired by a public entity through a negotiated transaction, or by gift or devise, the Special Tax will continue to be levied on and enforceable against the public entity that acquired the property. In addition, the Act provides that, if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. The constitutionality and operation of these provisions of the Act have not been tested in the courts. Due to problems of collecting taxes from public agencies, if a substantial portion of land within either Improvement Area No. 1 or Improvement Area No. 2 became exempt from the Special Tax because of public ownership, or otherwise, the Maximum Special Taxes which could be levied upon the remaining property within those areas might not be sufficient to pay principal of and interest on the 2008 Bonds when due and a default could occur with respect to the payment of such principal and interest.

Failure to Develop Properties

The payment of the principal of and interest on the 2008 Bonds depends, in part, upon the receipt of Special Taxes levied on partially developed property. See "SPECIAL RISK FACTORS—Principal Taxpayers" above. Partially developed property is less valuable per unit of area than developed and completed property, especially if there are severe restrictions on the development of such property. Partially developed property also provides less security to the Owners of the 2008 Bonds should it be necessary for the District to foreclose on such property due to the nonpayment of the Special Taxes. Furthermore, the inability to develop the land within the District as currently proposed will make the Owners of the 2008 Bonds dependent upon timely payment of the Special Taxes levied on partially developed property for a longer period of time than projected. A slowdown or stoppage in the continued development of the District could reduce the willingness

and ability of the owners of the partially developed property to make Special Tax payments on such property and could greatly reduce the value of such property in the event it has to be foreclosed upon. See "SPECIAL RISK FACTORS—Property Values" below.

Land development is subject to comprehensive federal, State and local regulations. Approval is required from various agencies in connection with the layout and design of developments, the nature and extent of improvements, construction activity, land use, zoning, school, safety and health requirements, as well as numerous other matters. There is always the possibility that such approvals will not be obtained or, if obtained, will not be obtained on a timely basis. Failure to obtain any such agency approval or satisfy such governmental requirements would adversely affect planned land development. Finally, development of land is subject to economic considerations.

There can be no assurance that land development operations within the District will not be adversely affected by a future deterioration of the real estate market and economic conditions or future local, State and federal governmental policies relating to real estate development, the income tax treatment of real property ownership, or the national economy. A slowdown of the development process and the absorption rate could adversely affect property values and reduce the ability or desire of the property owners to pay the annual Special Taxes. In that event, there could be a default in the payment of principal of, and interest on, the 2008 Bonds when due.

Owners of the 2008 Bonds should assume that any event that significantly impacts the ability to develop and occupy the property within the District would cause the property values within the District to decrease substantially and could affect the willingness and ability of the owners of such land to pay the Special Taxes when due.

Risks Related to Adjustable Rate Mortgages, Creative Mortgage Financing Tools and Declines in Real Estate Prices

During summer 2004 through summer 2007, many persons financed the purchase of new homes using mortgage loans that featured adjustable interest rates and 'creative' loan structures, such as interest only payments, negative amortization of principal, and introductory 'teaser' rates. Interest only payments on loans allow the borrower to pay interest only for an initial period (*e.g.*, five years) and negative amortization of principal results in lower monthly mortgage payments, but a higher aggregate principal amount of the mortgage loan. Teaser rates are mortgage interest rates that start low and are subject to being reset at higher rates on a specified date or upon the occurrence of specified conditions. Their negative amortization of principal results in lower monthly mortgage payments, but a higher aggregate principal amount of the mortgage loan.

In the opinion of some economists, including the economist retained by the District to prepare Price Trend and Mortgage Report (defined below) the significant increase in home prices during summer 2003 through summer 2007 was driven, in part, by the ability of home purchasers to access adjustable/creative rate loans and creative loans, as well as loans up to the full value of the home, in some cases with minimal documentation of purchaser income qualification. These economists predict that resets on adjustable/creative rate loans to higher interest rates (and resulting increased payments), fewer borrowers will be able to qualify for mortgage loans and, as a result, home sale prices will decrease. Additionally, under such circumstances, homeowners in the District with adjustable/creative loans and limited economic resources may be unable or unwilling to pay higher mortgage payments as well as Special Tax and *ad valorem* tax payments when due. Interest rates on adjustable mortgage rate loans have, in some instances, previously reset to higher interest rates and some financial studies predict that, nationwide, mortgage loans with teaser rates will experience significant resets in 2007 and 2008, resulting in higher levels of mortgage payments.

Some borrowers who purchased homes with adjustable/creative rate loans may refinance before the interest reset date to obtain loans with fixed interest rates. However, other borrowers who purchased homes in

recent years may not be able to access replacement financing for their adjustable rate mortgage loans for a number of reasons. Recent news accounts indicate that many borrowers in recent years have financed 90% to 100% of the price of their home with adjustable rate loans. As discussed in the Price Trend and Mortgage Report, this was also true for a number of homes in the District. In the event there is a decline in home value such borrowers may not be able to obtain replacement financing because outstanding loan balances exceed the value of their homes. Additionally, according to recent articles in the financial press, there has been a tightening of underwriting criteria for mortgage loans, such that many fewer lenders offer 100% financing or other creative mortgage structures. Regulatory changes or changes in standards of practice in the mortgage lending industry could also create requirements of stricter income verification, higher income to loan ratios, higher credit ratings, or some combination of such credit factors.

Homeowners in the District who purchased their homes with adjustable/creative rate loans may experience difficulty in making their loan payments and paying the Special Taxes levied on their property due either to a decline value of their homes or an increase in mortgage rates, or both. This would result in an increase in the Special Tax delinquency rate in the District and possible depletion of the Reserve Account. If there were significant delinquencies in Special Tax collections in the District and the Reserve Account was depleted, there could be a default in the payment of principal of and interest on the 2008 Bonds.

Some economists also report recent increases in recorded notices of default on home mortgage loans in the County and in Southern California. The filing of a notice of default reflects the failure of a homeowner to pay mortgage loan payments in a timely manner for a certain period of time, usually three consecutive months. If home prices continue to decline in the future, the number of notices of default may increase due to decreased home equity.

As reported in the Price Trend and Mortgage Report (defined below) home prices have been declining in the County and the District. Any decline in home values in the District could result in further property owner unwillingness or inability to pay mortgage payments, as well as *ad valorem* taxes and special taxes, when due. Under such circumstances, bankruptcies are likely to increase. Bankruptcy by homeowners with delinquent Special Taxes would delay the commencement and completion of foreclosure proceedings to collect delinquent Special Taxes. See "SPECIAL RISK FACTORS—Bankruptcy and Foreclosure" below.

Given the foregoing risks, the District retained Empire Economics, Inc. ("Empire") to prepare a report (the "Price Trend and Mortgage Report") to analyze (1) recent housing price trends in the County and the District and (2) certain characteristics of the mortgage loans on the residential properties in the District. The Price Trend and Mortgage Report concludes that there is a concentration of risk in recently developed communities that is not present in the broader housing market due to homeowners with little or no equity in their homes, a greater rise of adjustable rate loans and creative loan structures and a high incidence of similar mortgage loan structures due to a number of initial purchasers using the builder's preferred lender. A copy of the Price Trend and Mortgage Report is attached as Appendix H hereto. The Price Trend and Mortgage Report focuses on two specific characteristics of the mortgage loans: first, a comparison of the mortgage loan to sales price ratios (ML-SP) and second, the percentage of adjustable loans in the District. These two characteristics were analyzed for current homeowners for which such information was available and for parcels that have been delinquent in the payment of one or more installments of Special Taxes from fiscal year 2003-04 through the first installment for fiscal year 2007-08.

Part I of the Price Trend and Mortgage Report focuses on recent housing price trends and patterns in the County and the District. It concludes that housing prices in the County increased significantly, more than tripling, from 1998 to 2005, stabilized in 2006 and decreased in 2007. On average, prices in November 2007 were 13.4% lower than in November 2006. Looking at the District, the Price Trend and Mortgage Report concludes that prices for attached homes in the District increased from October 2003 to February 2007, peaked in February and March 2007 and have decreased slightly since, while prices for detached homes increased from May 2003 to June 2006, reached a peak in June 2006 and have decreased significantly since that time. Part I of the Price Trend and Mortgage Report also reviewed the resale of 19 homes in the District in 2007 and

concluded that resale prices of these homes was, on average 20.1% above the January 1, 2007 assessed values for these homes. Only one resale occurred at a sales price that was below its January 1, 2007 assessed value. That sale occurred on November 30, 2007 and the sales prices was 4.3% below the January 1, 2007 assessed value.

The Price Trend and Mortgage Report concludes that the parcels with a higher ML-SP ratio tended to have a higher rate of Special Tax delinquency and such parcels also had a higher percentage of adjustable rate loans than non-delinquent parcels. The Price Trend and Mortgage Report analyzed data for 312 of the 349 units in the District for which current ownership and mortgage information was available. For the 312 homes it was determined that approximately 7% have ML-SP ratios of 100%, 22% have ratios of 90 to 99%, 30% have ratios of 80 to 89% and 41% have ratios below 80%. Of the 52 parcels that have been delinquent in one or more Special Tax installments since fiscal year 2003-04, 31.8% had ML-SP ratios of 100%, 21.2% had ratios of 90 to 99%, 18.8% had ratios of 80 to 89% and 10.2% had ratios below 80%. Of the non-delinquent parcels 77% had adjustable rate mortgages compared to 84% for the delinquent parcels. The Price Trend and Mortgage Report observes that interest rates on adjustable mortgages have risen on the average by approximately 1.51% between 2003-05 and 2006-07 and that to the extent the homeowners in the District have had rate adjustments on their loans since the end of 2005, they will likely be paying higher mortgage payments now than when the home was purchased. There can be no assurance as to whether or the extent to which rates on adjustable mortgages will increase, remain the same or decrease in the future.

The Price Trend and Mortgage Report is being provided for informational purposes only, and no statement in the Price Trend and Mortgage Report shall be construed as a prediction, or an assurance by the City or the District, that the existing landowners within the District or any successors thereof will continue making the Special Tax payments when due.

Fallout from Subprime Mortgage Defaults; Potential Impact on Resale of Homes in the District

During the first half of 2007, mortgage delinquencies and defaults escalated nationwide, particularly among property owners with subprime mortgages. As a result, the secondary market for subprime and other risky home loans has declined substantially, resulting in significant financial losses and in some cases bankruptcies among subprime lenders unable to sell those loans and acquire fresh capital. The subprime lender fallout has resulted in conventional lenders tightening their lending criteria, making it more difficult to borrow when purchasing or refinancing a home. Fewer conventional lenders are offering 100% financing, second mortgages or undocumented loans; and jumbo loan rates have increased substantially.

Residential mortgage loans are either "conforming" or "non-conforming." Conforming loans comply with the guidelines established by the two largest purchasers of home loans in the country: the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac"). Fannie Mae and Freddie Mac do not make mortgage loans. Instead, they purchase "conforming loans" from mortgage lending institutions, package the mortgages into securities ("mortgage-backed securities") and sell the mortgage-backed securities to investors. Fannie Mae and Freddie Mac guarantee the timely payment of principal and interest on their mortgage-backed securities.

The 2007 conforming loan limit for first mortgages in the continental United States was \$417,000. Loans above the conforming loan amount are known as "jumbo" loans. Because jumbo loans are bought and sold on a much smaller scale than conforming loans, they often have higher interest rates than conforming loans; however, the spread between the interest rate on conforming and jumbo loans varies with economic conditions.

In August 2007, as a result of various economic factors, including increasing defaults on residential mortgages throughout the United States, most notably "sub-prime loans," investor demand for uninsured loans (i.e., loans that could not be purchased by Fannie Mae or Freddie Mac) substantially decreased. This decreased investor demand for jumbo loans caused the interest rate on jumbo loans to increase relative to the

interest rate on conforming loans. In some cases, lenders stopped making jumbo loans altogether. Market conditions may improve sufficiently to reduce the current difficulty in obtaining jumbo loans or legislation could be enacted to address some of the regulatory issues contributing to the current difficulties. However, there is no certainty that improvement in market conditions or regulatory changes will occur, either in the immediate future or at all. Given home prices in the District, in many cases a jumbo loan would be necessary to finance a home purchase.

On February 13, 2008, President Bush signed H.R. 5140, the Recovery Rebates and Economic Stimulus for the American People Act of 2008 (the "Stimulus Package"). The Stimulus Package provides a new provision to temporarily raise the limits for loans that may be purchased by Fannie Mae and Freddie Mac through December 31, 2008. While the U.S. Department of Housing and Urban Development has 30 days from finalization of the bill to release the new limits for such loans, the limit is estimated by many to be approximately \$729,750. While the Stimulus Package might provide some temporary relief with respect to refinancing jumbo loans, no assurance can be given that this will result in jumbo loans being available to property owners in the District seeking to refinance their homes.

As a result of the tightening credit market, homeowners in the District seeking to refinance existing loans may have difficulty finding financing, and stricter underwriting criteria and reduced availability of mortgage loans may significantly reduce the number of potential purchasers of homes in the District. This could result in a reduction in home resale prices in the District.

Future Land Use Regulations and Growth Control Initiatives

It is possible that future growth control initiatives could be enacted by the voters or future local, state or federal land use regulations could be adopted by governmental agencies and be made applicable to the development of the portions of the District not yet developed or renovated with the effect of negatively impacting the ability of the owners of such land to complete the development or renovation of such land if they should desire to develop or renovate it. This possibility presents a risk to prospective purchasers of the 2008 Bonds in that an inability to complete desired development and renovation increases the risk that the 2008 Bonds will not be repaid when due. The owners of the 2008 Bonds should assume that any reduction in the permitted density, significant increase in the cost of the development or renovation planned within the District, or substantial delay in the development or renovation caused by growth and building permit restrictions, or more restrictive land use regulations, would cause the values of such land within the District to decrease. A reduction in property values increases the likelihood that in the event of a delinquency in payment of Special Taxes a foreclosure action will result in inadequate funds to repay the 2008 Bonds when due.

Completion of construction of any proposed structures on the vacant land and the rehabilitation of existing structures within the District is subject to the receipt of approvals from a number of public agencies concerning the layout and design of such structures, land use, health and safety requirements and other matters. The failure to obtain any such approval could adversely affect the planned development of such land.

Under current State law, it is generally accepted that proposed development is not exempt from future land use regulations until building permits have been issued and substantial work has been performed and substantial liabilities have been incurred in good faith reliance on the permits. It is possible that the construction of the remaining planned development and renovation could be impacted by future land use regulations and restrictions which could cause significant delays and cost increases not currently anticipated, thereby reducing the development potential of such property and the ability or willingness of owners or lessees of such property to pay Special Taxes when due, and also could cause the values of such property or leasehold interests to decrease.

Proximity to the San Diego International Airport

The District is adjacent to the San Diego International Airport, Lindbergh Field. The proximity of the District to Lindbergh Field could have a variety of impacts on the existing and the proposed development in the District and presents certain risks to owners of the 2008 Bonds. These risks, summarized below, are (1) the possible negative impact to real property values, (2) a reduction in the number of taxpayers in the District and/or an early redemption of 2008 Bonds as a result of the condemnation of property in the District for airport uses, and (3) delays in or limitations on future development in Improvement Area No. 2 of the District.

A significant portion of the property within the District is subject to an air and aviation easement that grants the Airport Authority, as Airport Operator, the perpetual use of the airspace above the portion of the District affected by the easement and subjects such property to all noise, vibration, fumes, dust, fuel particles, inconvenience, interference with the use of enjoyment of property and any reduction in market value of the property caused by any aircraft operating to or from Lindbergh Field. The aviation easement also exempts the Airport Authority from liability for nuisances resulting from airport noise impacts, as well as impacts resulting from air emissions. It is therefore possible that airport noise, and other impacts associated with aircraft operations could negatively impact real property values in the District.

The Airport Authority is in the process of updating the San Diego International Airport Master Plan ("Master Plan"). The proposed Master Plan would increase the number of aircraft gates, provide additional aircraft parking, improve the aircraft taxiways, improve roadway access to the terminals, and increase the amount of vehicle parking within the existing airport property. While the Airport Authority is not proposing to increase the length of the existing runway, due to the potential increase in aircraft operations proposed by the terminal facility expansion, it is possible that the future noise levels affecting the District could exceed existing noise levels, which could negatively impact real property values in the District.

The redevelopment planning, permitting and entitlement processes in the District have proceeded pursuant to various Federal and State statutes, including those governing military base closures and reuse, as well as airport land use compatibility planning. Part of that planning process included the adoption by the City Council of the Precise Plan in September 2001. During the planning process, City staff worked closely with the staff of the San Diego Unified Port District ("Port"), which was then the operator of Lindbergh Field, and the staff of the San Diego Association of Governments ("SANDAG"), which was the San Diego County ALUC at that time. In 2002, the Airport Authority was created by the legislature as a new agency to serve as both the Lindbergh Field Airport Operator and the ALUC.

The District is located within the Airport Influence Area ("AIA"), which defines the jurisdiction of the ALUC. In 2004, pursuant to its statutory authority, the ALUC amended the Comprehensive Land Use Plan ("CLUP") first adopted by SANDAG, serving as the ALUC, in 1992 (and first amended by SANDAG in 1994). As part of the 2004 amendment, the CLUP was renamed as the Airport Land Use Compatibility Plan ("ALUCP"). The ALUCP contains policies and criteria addressing noise, airspace protection, over-flight, and safety that are used by the City and the Airport Authority for determining whether proposed developments or uses would be consistent with existing and future airport operations. The Airport Authority is currently in the process of drafting a new ALUCP that will contain new and updated airport land use compatibility policies and criteria.

A portion of Improvement Area No. 2 is located within the Runway Protection Zone ("RPZ"). Federal Aviation Administration ("FAA") Guidelines prohibit residences, fuel storage facilities and places of public assembly in the RPZ. The FAA Guidelines further define churches, schools, hospitals, office buildings, shopping centers and other uses with similar concentrations of persons as places of public assembly. The location of Improvement Area No. 2 partially within the RPZ may constrain proposed development and redevelopment options. The existing RPZ utilized in the ALUCP includes only six buildings in Improvement Area No. 2 of the District (Buildings 31, 34, 153, 179, 185, and 358). The Precise Plan depicts an RPZ area which is larger than the current RPZ recognized by the FAA. The Precise Plan RPZ includes 12 existing

buildings that are within Improvement Area No. 2 of the District. The Precise Plan does not permit new construction of buildings in the RPZ. Rather, the Precise Plan only permits the rehabilitation of the existing buildings within the existing structural envelopes. It also requires the City to submit all proposed development or building permits in the RPZ to the Lindbergh Field Airport Operator, the Airport Authority. The Precise Plan outlines the process whereby the Airport Authority, as the Airport Operator, can determine whether a proposed permit is consistent with the Precise Plan and request that a proposed permit be submitted to the ALUC for a consistency determination with the ALUCP.

The Airport Authority is considering enlarging the RPZ if the FAA RPZ standards can be satisfied. An enlargement of the RPZ could affect additional property in the District. In addition, as part of the ALUCP update effort, the Airport Authority, as the ALUC, is also considering adopting land use compatibility/safety zones beyond the geographic extent of the RPZ. If adopted, additional safety zones could result in additional restrictions on the type and intensity of future land uses allowed in the District which could also slow or limit further development in Improvement Area No. 2. It is also possible that the Airport Authority, as Airport Operator, could seek to purchase or condemn property within the RPZ or any additional safety zone for the purpose of removing existing uses or preventing new uses in the RPZ. The purchase or condemnation of properties in the portion of the District within the RPZ or a safety zone could result in an early redemption of Bonds from condemnation proceeds and could also reduce the number of taxpayers within the District, thereby decreasing the diversity of ownership of the Taxable Property.

The Airport Authority has requested that all proposed development within the AIA for Lindbergh Field, including proposed development within the District, be submitted to the ALUC for a determination of whether the proposed development is consistent with the adopted ALUCP for Lindbergh Field. As stated in its July 9, 2007 letter to the General Counsel for the Airport Authority, the City Attorney's Office is of the opinion that the City must seek consistency determinations from the ALUC for proposed development projects until such time as the City submits the Precise Plan to the ALUC for a consistency determination. The City submits to the Airport Authority for a finding of consistency with the ALUCP all discretionary development proposals. In addition, the City submits ministerial building permits that result in a Certificate of Occupancy for property within the RPZ, as delineated in the Precise Plan. The City is currently considering submitting ministerial building permits outside of the RPZ to the Airport Authority for consistency determinations with the ALUCP. In January, 2008, the Airport Authority determined that a proposed retail use (Ace Hardware) in Building 193 is consistent with the ALUCP and that proposed manufacturing uses in Buildings 31, 153, 185 are conditionally consistent with the ALUCP. There can be no assurance that the Airport Authority will provide consistency determinations for various proposed developments within Improvement Area No. 2. Therefore, the ALUC review and consistency determination process could result in delays in or limitations on future development within Improvement Area No. 2.

Endangered Species

Neither the District nor the Developer is aware of any endangered or threatened species within the District. This fact does not entirely eliminate the possibility that development in the District is delayed or altered due to environmental issues related to endangered or threatened species. In recent years there has been an increase in activity at the State and federal levels related to the possible listing of certain plant and animal species found in San Diego County as endangered species. The identification of an endangered or threatened species on property adjacent to the District could curtail development in the District. Any action by the State or federal governments to protect species located on or adjacent to the property within the District could negatively impact the ability of the Developer and any subsequent owners to develop the land within the District that remains undeveloped. This, in turn, could reduce the likelihood of timely payment of the Special Taxes levied against such land and would likely reduce the value of such land and the potential revenues available at the foreclosure sale for delinquent Special Taxes. See "SPECIAL RISK FACTORS—Failure to Develop Properties" above.

Natural Disasters

The District, like all California communities, may be subject to unpredictable seismic activity, fires, flood, or other natural disasters. Southern California is a seismically active area. Seismic activity represents a potential risk for damage to buildings, roads, bridges and property within the District. In addition, land susceptible to seismic activity may be subject to liquefaction during the occurrence of such event. The District is located at sea level adjacent to the San Diego Bay. A rise in the sea level due to a tsunami or other factors could result in substantial flooding. In the event of a severe earthquake, fire, flood or other natural disaster, there may be significant damage to both property and infrastructure in the District. As a result, a substantial portion of the property owners and lessees may be unable or unwilling to pay the Special Taxes when due. In addition, the value of land in the District could be diminished in the aftermath of such a natural disaster, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of the Special Taxes.

In the event of a major earthquake, the land within the District could be subject to moderate to severe ground shaking. According to recent geotechnical reports, the nearest known major active fault to the District is the Rose Canyon Fault approximately 2.5 miles to the east of the site. In addition to the Rose Canyon Fault, there are five other known fault zones ranging from 17 to 57 miles from the District.

The property in the District was not affected by any of the October 2007 wildfires in San Diego County.

Hazardous Substances

The presence of hazardous substances on a parcel may result in a reduction in the value of a parcel. In general, the owners and operators of a parcel may be required by law to remedy conditions of the parcel relating to releases or threatened releases of hazardous substances. The Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act," is the most well-known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner or operator is obligated to remedy a hazardous substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the taxed parcels be affected by a hazardous substance, is to reduce the marketability and value of the parcel by the costs of remedying the condition, because the purchaser, upon becoming owner, will become obligated to remedy the condition just as is the seller.

Further, it is possible that liabilities may arise in the future with respect to any of the parcels resulting from the existence, currently, on the parcel of a substance presently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the existence, currently on the parcel of a substance not presently classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the value of a parcel that is realizable upon a delinquency.

United States Government Actions 1993-2001

CERCLA provides with respect to military base closures that the federal government must covenant that any remedial action necessary to protect human health and the environment has been taken before the transfer of land within a closed base and that any future remedial action found to be necessary after the date of transfer shall be conducted by the federal government.

Prior to transfer of the Naval Training Center property by the United States to the City, it was necessary for the United States to make an affirmative determination that the property was suitable to transfer and to document such finding in a "Finding of Suitability to Transfer" ("FOST").

By deeds recorded in 2000 and 2001, the United States transferred to the City all portions of the Naval Training Center which were the subject of a FOST. The United States warranted in each deed "that all remedial actions necessary to protect human health and the environment" had been undertaken and "that all additional remedial action found to be necessary after the date of [the] deed shall be conducted by the United States."

Environmental Insurance

The DDA requires that the Developer acquire and maintain a policy of Commercial Property Redevelopment Pollution insurance to provide \$50,000,000 in coverage to the Developer, the Agency and the City. Under the terms of the policy, if hazardous substances are found within the Liberty Station project, including substances that are the responsibility of the federal government, the Developer may proceed to remediate the property and be reimbursed by the insurer.

Recent Developments

In Fall 2002, the Developer uncovered a trash deposit in Improvement Area No. 1. Analysis of the materials indicated that the trash had been burned; therefore, it was classified as hazardous material. The Developer submitted a work program to the County of San Diego Office of Environmental Health, and proceeded to remediate the site by removing the materials and backfilling with clean soil. In July 2003, the County of San Diego prepared a Case Closure indicating the trash deposit had been successfully remediated.

The only area of the Naval Training Center which has not yet been conveyed to the City and with respect to which regulators have not issued a "No Further Action" concurrence is the Boat Channel. The United States Government has continued to discuss the closure of the Boat Channel with the California Regional Water Quality Control Board, as the lead agency. City staff has begun discussions with the United States Government and the Regional Water Quality Control Board regarding the environmental remediation and conveyance of the Boat Channel to the City. These discussions are currently on-going. As of January 1, 2008, no resolution had been reached as to remediation and conveyance of the Boat Channel to the City.

Mold in Residential Units

In May 2005, the homebuilder within the District discovered evidence of mold stains on a vanity located along a common wall in Anchor Cove, which comprises the condominium project section of Improvement Area No. 1. This led to the homebuilder investigating approximately 140 condominium units. Impacts were found in 54 units. The mold was caused from use by the homebuilder of a cellulose insulation product sold under the name Green Fiber. The homebuilder hired experts to investigate the mold, and successfully completed a remediation program to remove the mold by March 2006. The City makes no representation as to whether any mold exists in the District. Neither the Developer nor the City has received any further requests from homeowners related to the presence of mold.

Parity Taxes, Special Assessments and Land Development Costs

Property within the District is subject to taxes and assessments imposed by public agencies also having jurisdiction over the land within the District. See "THE DISTRICT—Estimated Direct and Overlapping Indebtedness."

The Special Taxes and any penalties thereon will constitute a lien against the parcels of land and leasehold interests on which they will be annually imposed until they are paid. Such lien is on a parity with all

special taxes and special assessments levied by the City and other agencies and is co-equal to and independent of the lien for general property taxes regardless of when they are imposed upon the same property. The Special Taxes have priority over all existing and future private liens imposed on the property except, possibly, for liens or security interests held by the Federal Deposit Insurance Corporation. See "SPECIAL RISK FACTORS—Bankruptcy and Foreclosure" below.

Development and renovation of the land and existing improvements within the District is contingent upon construction or acquisition of major public improvements such as arterial streets, water distribution facilities, sewage collection and transmission facilities, drainage and flood protection facilities, gas, telephone and electrical facilities, parks and street lighting, as well as local in-tract improvements and on-site grading and related improvements. Certain of these improvements have been acquired and/or completed; however, there can be no assurance that the remaining improvements will be constructed or will be constructed in time for development to proceed as currently expected. The cost of these additional improvements plus the public and private in-tract, on-site and off-site improvements could increase the public and private debt for which the property within the District is security. This increased debt could reduce the ability or desire of the property owners and lessees to pay the annual Special Taxes levied on their property interest. In that event there could be a default in the payment of principal of, and interest on, the 2008 Bonds when due.

Neither the City nor the District has control over the ability of other entities to issue indebtedness secured by special taxes, *ad valorem* taxes or assessments payable from all or a portion of the property within the District. In addition, the property owners within the District may, without the consent or knowledge of the City, petition other public agencies to issue public indebtedness secured by special taxes, and *ad valorem* taxes or assessments. Any such special taxes, and *ad valorem* taxes or assessments may have a lien on such property on a parity with the Special Taxes and could reduce the estimated value-to-lien ratios for property within the District described herein.

Disclosures to Future Purchasers

The willingness or ability of an owner or lessee of a parcel to pay the Special Tax even if the value of the parcel is sufficient may be affected by whether or not the owner or lessee was given due notice of the Special Tax authorization at the time the owner purchased the parcel or entered into the lease, was informed of the amount of the Special Tax on the parcel should the Special Tax be levied at the maximum tax rate and the risk of such a levy, and, at the time of such a levy, has the ability to pay it as well as pay other expenses and obligations. The City has caused a notice of the Special Tax lien to be recorded in the Office of the Recorder for the County against each parcel. While title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider such Special Tax obligation in the purchase of a property within the District or lending of money thereon.

The Act requires the subdivider (or its agent or representative) of a subdivision to notify a prospective purchaser or long-term lessor of any lot, parcel, or unit subject to a Mello-Roos special tax of the existence and maximum amount of such special tax using a statutorily prescribed form. California Civil Code Section 1102.6b requires that in the case of transfers other than those covered by the above requirement, the seller must at least make a good faith effort to notify the prospective purchaser of the special tax lien in a format prescribed by statute. Failure by an owner of the property to comply with the above requirements, or failure by a purchaser or lessor to consider or understand the nature and existence of the Special Tax, could adversely affect the willingness and ability of the purchaser or lessor to pay the Special Tax when due.

Special Tax Delinquencies

Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the 2008 Bonds are derived, are customarily billed to the properties within the District on the *ad valorem* property tax bills sent to owners or lessees of such properties. The Act currently

provides that such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do *ad valorem* property tax installments. The Special Taxes securing payment of the 2008 Bonds do not include any penalties or interest collected in connection with delinquent installments.

See "SOURCES OF PAYMENT FOR THE BONDS—Proceeds of Foreclosure Sales," for a discussion of the provisions which apply, and procedures which the District is obligated to follow under the Bond Indenture, in the event of delinquencies in the payment of Special Taxes. See "—Bankruptcy and Foreclosure" below, for a discussion of the policy of the Federal Deposit Insurance Corporation regarding the payment of special taxes and assessment and limitations on the District's ability to foreclose on the lien of the Special Taxes in certain circumstances.

Non-Cash Payments of Special Taxes

Under the Act, the City Council as the legislative body of the District may reserve to itself the right and authority to allow the owner or lessee of any taxable parcel to tender a Bond or Parity Bond in full or partial payment of any installment of the Special Taxes. A Bond or Parity Bond so tendered is to be accepted at par and credit is to be given for any interest accrued thereon to the date of the tender. Thus, if Bonds or Parity Bonds can be purchased in the secondary market at a discount, it may be to the advantage of the owner or lessee of a taxable parcel to pay the Special Taxes applicable thereto by tendering a Bond or Parity Bond. Such a practice would decrease the cash flow available to the District to make payments with respect to other Bonds or Parity Bonds then outstanding; and, unless the practice was limited by the District, the Special Taxes paid in cash could be insufficient to pay the debt service due with respect to such other Bonds or Parity Bonds. In order to provide some protection against the potential adverse impact on cash flows which might be caused by the tender of Bonds or Parity Bonds in payment of Special Taxes, the Bond Indenture includes a covenant pursuant to which the District will not authorize owners of taxable parcels to satisfy Special Tax obligations by the tender of Bonds or Parity Bonds unless the District shall have first obtained a report of an Independent Financial Consultant certifying that doing so would not result in the District having insufficient Special Tax revenues to pay the principal of and interest on all Outstanding Bonds and any Parity Bonds when due.

Payment of the Special Tax is not a Personal Obligation of the Owners or Lessees

An owner or lessee of a taxable parcel or leasehold interest is not personally obligated to pay the Special Tax. Rather, the Special Tax is an obligation which is secured only by a lien against the taxable parcel or leasehold interest in a parcel. If the value of a taxable parcel or leasehold interest is not sufficient, taking into account other liens imposed by public agencies, to secure fully the Special Tax, the District has no recourse against the owner or lessee.

Property Values

The value of the property within the District is a critical factor in determining the investment quality of the 2008 Bonds. If a property owner is delinquent in the payment of Special Taxes, the District's only remedy is to commence foreclosure proceedings against the delinquent parcel or leasehold interest in an attempt to obtain funds to pay the Special Taxes. Reductions in property values, including leasehold interests, due to a downturn in the economy, physical events such as earthquakes, fires or floods, stricter land use regulations, delays in development or other events will adversely impact the security underlying the Special Taxes and would reduce the estimated value-to-lien ratios set forth in Table 6 above.

The assessed values set forth in this Official Statement do not represent market values arrived at through an appraisal process and generally reflect only the sales price of a parcel when acquired by its current owner or the value of a leasehold interest established by the San Diego County Assessor, adjusted annually by an amount determined by the San Diego County Assessor, generally not to exceed an increase of more than 2% per fiscal year. No assurance can be given that a parcel or leasehold interest subject to foreclosure could actually be sold for its assessed value.

Prospective purchasers of the 2008 Bonds should not assume that the property within the District could be sold for its assessed or market value at a foreclosure sale for delinquent Special Taxes. No assurance can be given that any bid will be received for an Assessor's Parcel with delinquent Special Taxes offered for sale at foreclosure or, if a bid is received, that such bid will be sufficient to pay all delinquent Special Taxes. See "SOURCES OF PAYMENT FOR THE BONDS—Special Tax—*Proceeds of Foreclosure Sales.*"

Assessment Appeals

There are two basic types of assessment appeals provided for under California law. The first type of appeal, commonly referred to as a base year assessment appeal, involves a dispute on the valuation assigned by the Assessor immediately subsequent to a change in ownership or completion of new construction. If the base year value assigned by the Assessor is reduced, the valuation of the property cannot increase in subsequent years more than two percent annually unless and until another change in ownership and/or additional new construction activity occurs. The second type of appeal, commonly referred to as a Proposition 8 appeal, can result if factors occur causing a decline in the market value of the property to a level below the property's then current taxable value.

As of January 2, 2008, there were base year assessment appeals pending for two non-residential parcels taxed in Fiscal Year 2007-08 within the District seeking a reduction of \$5,395,407 in assessed value. As of January 28, 2008, the County Assessor had recommended a reduction of \$5,267,092 in assessed value for these two parcels. Once approved, the County Assessor's recommended value for the two parcels will be applied retroactively to Fiscal Year 2006-07 to reduce the assessed value for these two parcels to \$1,060,000 and will thereafter be escalated 2% for Fiscal Year 2007-08 to \$1,081,200, as reflected in Table 6. In addition, Proposition 8 assessment appeals were filed by two homeowners in November 2007. As of February 1, 2008, the County had not yet set a date to hear these appeals. Therefore, Table 6 does not reflect any changes to assessed value for these two homeowner properties. Additional assessment appeals have also been filed for Undeveloped Properties in Improvement Area No. 2, which are not currently taxed.

Given the ongoing decline in real estate prices in San Diego it is likely that the number of appeals under Proposition 8 will increase which could result in reductions in assessed values which adversely impacts the security underlying the Special Taxes and would reduce the estimated value-to-lien ratios set forth in Table 6 above. In addition, the County Assessor can initiate reductions in assessed values on its own determination. Such determination would not reduce the amount of Special Taxes authorized to be levied on any parcel within the District. The District cannot provide any assurance as to the likelihood, extent or success of any assessment appeal by a property owner in the District in the future.

FDIC/Federal Government Interests in Properties

The ability of the District to foreclose the lien of delinquent unpaid Special Tax installments may be limited with regard to properties in which the Federal Deposit Insurance Corporation (the "FDIC") has an interest. In the event that any financial institution making any loan which is secured by real property within the District is taken over by the FDIC, and prior thereto or thereafter the loan or loans go into default, then the ability of the District to collect interest and penalties specified by State law and to foreclose the lien of delinquent unpaid Special Taxes may be limited.

The FDIC's policy statement regarding the payment of state and local real property taxes (the "Policy Statement") provides that property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property's value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its property tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution's affairs, unless abandonment of the FDIC's interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent the

interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. If any property taxes (including interest) on FDIC-owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC's consent. In addition, the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC's consent.

The Policy Statement states that the FDIC generally will not pay non-*ad valorem* taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Special taxes imposed under the Mello-Roos Act and a special tax formula which determines the special tax due each year are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC's federal immunity.

The District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency in the payment of Special Taxes on a parcel or leasehold interest within the District in which the FDIC has or obtains an interest, although prohibiting the lien of the FDIC to be foreclosed out at a judicial foreclosure sale could reduce or eliminate the number of persons willing to purchase a parcel or leasehold interest at a foreclosure sale. Such an outcome could cause a draw on the Reserve Account and perhaps, ultimately, a default in payment on the 2008 Bonds.

Bankruptcy and Foreclosure

Bankruptcy, insolvency and other laws generally affecting creditors rights could adversely impact the interests of Owners of the 2008 Bonds in at least three ways. First, the payment by a taxpayer of Special Taxes and the ability of the District to foreclose the lien of a delinquent unpaid Special Tax pursuant to its covenant to pursue judicial foreclosure proceedings may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. See "SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—*Proceeds of Foreclosure Sales*." In addition, the prosecution of a foreclosure could be delayed due to many reasons, including crowded local court calendars or lengthy procedural delays.

Secondly, the Bankruptcy Code might prevent moneys on deposit in the Project Account of the Acquisition and Construction Fund from being applied to pay interest on the 2008 Bonds and/or to redeem 2008 Bonds if bankruptcy proceedings were brought by or against the Developer or its related entities or successors and if the court found that any of such landowners had an interest in such moneys within the meaning of Section 541(a)(1) of the Bankruptcy Code.

Thirdly, a bankruptcy involving the County and the County Treasurer's Investment Pool (the "Pool") might cause Special Taxes held in the Pool to be temporarily unavailable to the District and, in turn, the Trustee. The County assesses property and collects secured and unsecured property taxes for the cities, school districts, and special districts within the County, including the City. Once the property taxes are collected, the County conducts its internal reconciliation for accounting purposes and distributes the City's share of such taxes to the City, generally within a couple of weeks. Prior to distribution, the moneys are deposited in an account established on behalf of the City in the Pool. See APPENDIX B—"SUPPLEMENTAL INFORMATION CONCERNING THE CITY OF SAN DIEGO."

Although a bankruptcy proceeding involving a property owner would not cause the Special Taxes to become extinguished, the amount of any Special Tax lien could be modified if the value of the interest against which such Special Taxes were levied falls below the value of the lien. If the value of the interest against which such Special Taxes were levied is less than the lien, such excess amount could be treated as an unsecured claim by the bankruptcy court. In addition, bankruptcy of a property owner could result in a delay

in prosecuting Superior Court foreclosure proceedings. Such delay would increase the likelihood of a delay or default in payment of delinquent Special Tax installments and the possibility of delinquent Special Tax installments not being paid in full.

On July 30, 1992, the United States Court of Appeals for the Ninth Circuit issued its opinion in a bankruptcy case entitled In re Glasply Marine Industries. In that case, the court held that *ad valorem* property taxes levied by Snohomish County in the State of Washington after the date that the property owner filed a petition for bankruptcy were not entitled to priority over a secured creditor with a prior lien on the property. Although the court upheld the priority of unpaid taxes imposed before the bankruptcy petition, unpaid taxes imposed after the filing of the bankruptcy petition were declared to be “administrative expenses” of the bankruptcy estate, payable after all secured creditors. As a result, the secured creditor was able to foreclose on the property and retain all the proceeds of the sale except the amount of the pre-petition taxes.

The Bankruptcy Reform Act of 1994 (the “Bankruptcy Reform Act”) included a provision which excepts from the Bankruptcy Code’s automatic stay provisions, “the creation of a statutory lien for an *ad valorem* property tax imposed by . . . a political subdivision of a state if such tax comes due after the filing of the petition [by a debtor in bankruptcy court].” This amendment effectively makes the Glasply holding inoperative as it relates to *ad valorem* real property taxes. However, it is possible that the original rationale of the Glasply ruling could still result in the treatment of post-petition special taxes as “administrative expenses,” rather than as tax liens secured by real property, at least during the pendency of bankruptcy proceedings.

According to the court’s ruling, as administrative expenses, post petition taxes would be paid, assuming that the debtor had sufficient assets to do so. In certain circumstances, payment of such administrative expenses may be allowed to be deferred. Once the property is transferred out of the bankruptcy estate (through foreclosure or otherwise), it would at that time become subject to current *ad valorem* taxes.

The Act provides that the Special Taxes are secured by a continuing lien which is subject to the same lien priority in the case of delinquency as *ad valorem* taxes. No case law exists with respect to how a bankruptcy court would treat the lien for Special Taxes levied after the filing of a petition in bankruptcy. Glasply is controlling precedent on bankruptcy courts in the State. If the Glasply precedent was applied to the levy of the Special Taxes, the amount of Special Taxes received from parcels whose owners or lessees declare bankruptcy could be reduced.

The various legal opinions to be delivered concurrently with the delivery of the 2008 Bonds (including Bond Counsel’s approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, by moratorium, bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

No Acceleration Provision

The 2008 Bonds do not contain a provision allowing for the acceleration of the 2008 Bonds in the event of a payment default or other default under the 2008 Bonds or the Bond Indenture.

Loss of Tax Exemption

As discussed under the caption “LEGAL MATTERS—Tax Exemption,” the interest on the 2008 Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the 2008 Bonds as a result of a failure of the District to comply with certain provisions of the Internal Revenue Code of 1986, as amended. Should such an event of taxability occur, the 2008 Bonds are not subject to early redemption and will remain outstanding to maturity or until redeemed under the redemption provisions of the Bond Indenture.

Limitations on Remedies

Remedies available to the Owners of the 2008 Bonds may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the 2008 Bonds or to preserve the tax-exempt status of the 2008 Bonds.

Bond Counsel has limited its opinion as to the enforceability of the 2008 Bonds and of the Bond Indenture to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or other similar laws affecting generally the enforcement of creditors' rights, by equitable principles and by the exercise of judicial discretion. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the owners of the 2008 Bonds.

Limited Secondary Market

There can be no guarantee that there will be a secondary market for the 2008 Bonds or, if a secondary market exists, that such 2008 Bonds can be sold for any particular price. Although the District and the Developer have committed to provide certain financial and operating information on an annual basis, there can be no assurance that such information will be available to Owners of the 2008 Bonds on a timely basis. See "CONTINUING DISCLOSURE." The failure to provide the required annual financial information does not give rise to monetary damages but merely an action for specific performance. Occasionally, because of general market conditions, lack of current information, or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

Certain Investigations Regarding City

The City has been under investigation by various governmental agencies stemming from misstatements and/or omissions concerning the City's pension system in the City's 2002 and 2003 financial statements and/or related securities offerings disclosure. The Securities and Exchange Commission (the "SEC") concluded its investigation into the City on November 14, 2006 by entering a Cease-and-Desist Order (the "Order") against the City wherein the SEC found that the City had violated the fraud provisions of the securities laws in failing to accurately disclose the City's growing pension liability in relation to several City bond offerings in 2002 and 2003. Investigations by the SEC into entities other than the City, including current and former City officials, are ongoing. To date, neither the investigations nor the Order involve any special tax bonds issued by community facilities districts within the City or any bonds issued by the District. Nonetheless, the District can provide no assurance that a significant negative development with respect to the City's overall financial condition or the pending investigations would not have a negative impact on the value of the Bonds in the secondary market. It is uncertain when the investigations will be completed, and the District can provide no assurance as to whether any new investigations will be initiated. The District has no reason to believe that any pending or future investigation would adversely interfere with the timely payment of principal and interest on the Bonds.

Proposition 218

An initiative measure commonly referred to as the "Right to Vote on Taxes Act" (the "Initiative") was approved by the voters of the State of California at the November 5, 1996 general election. The Initiative added Article XIII C and Article XIII D to the California Constitution. According to the "Title and Summary" of the Initiative prepared by the California Attorney General, the Initiative limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." The Initiative could potentially impact the Special Taxes available to the District to pay the principal of and interest on the 2008 Bonds as described below.

Among other things, Section 3 of Article XIII states that “. . . the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge.” The Act provides for a procedure which includes notice, hearing, protest and voting requirements to alter the rate and method of apportionment of an existing special tax. However, the Act prohibits a legislative body from adopting any resolution to reduce the rate of any special tax or terminate the levy of any special tax pledged to repay any debt incurred pursuant to the Act unless such legislative body determines that the reduction or termination of the special tax would not interfere with the timely retirement of that debt. On July 1, 1997, a bill was signed into law by the Governor of the State enacting Government Code Section 5854, which states that:

“Section 3 of Article XIII C of the California Constitution, as adopted at the November 5, 1996, general election, shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after that date, assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights protected by Section 10 of Article I of the United States Constitution.”

Accordingly, although the matter is not free from doubt, it is likely that the Initiative has not conferred on the voters the power to repeal or reduce the Special Taxes if such reduction would interfere with the timely retirement of the 2008 Bonds. The provisions of the Initiative relating to the exercise of the initiative power have not been interpreted by the courts, and no assurance can be given as to the outcome of any such litigation.

It may be possible, however, for voters or the City Council acting as the legislative body of the District to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the 2008 Bonds, but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the 2008 Bonds. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses. Nevertheless, to the maximum extent that the law permits it to do so, the District has covenanted that it will not initiate proceedings under the Act to reduce the maximum Special Tax rates on parcels of Developed Property within the District to less than an amount equal to 110% of Maximum Annual Debt Service on the Outstanding 2008 Bonds and Parity Bonds. In connection with the foregoing covenant, the District has made a legislative finding and determination that any elimination or reduction of Special Taxes below the foregoing level would interfere with the timely retirement of the 2008 Bonds. The District also has covenanted that, in the event an initiative is adopted which purports to alter the Rate and Method, it will commence and pursue legal action in order to preserve its ability to comply with the foregoing covenant. However, no assurance can be given as to the enforceability of the foregoing covenants.

The interpretation and application of the Initiative will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination or the timeliness of any remedy afforded by the courts. See “SPECIAL RISK FACTORS—Limitations on Remedies.”

Ballot Initiatives

Article XIII A, XIII B, XIII C and XIII D were adopted pursuant to measures qualified for the ballot pursuant to California's constitutional initiative process. From time to time, other initiative measures could be adopted by California voters. The adoption of any such initiative might place limitations on the ability of the State, the City, or local districts to increase revenues or to increase appropriations or on the ability of the property owners within the District to complete the remaining proposed development. See “SPECIAL RISK FACTORS—Failure to Develop Properties” herein.

CONTINUING DISCLOSURE

Pursuant to the Continuing Disclosure Certificate of the District (the "Disclosure Certificate"), the District has agreed to provide, or cause to be provided, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (each, a "Repository") certain annual financial information and operating data concerning the District. Any filings required to be made by the District under the Disclosure Certificate may be made through the Central Post Office as defined in Appendix D hereto. The Annual Report to be filed by the District is to be filed not later than April 1 of each year, beginning April 1, 2009, and is to include audited financial statements of the City. The requirement that the City file its audited financial statements as a part of the Annual Report has been included in the Disclosure Certificate solely to satisfy the provisions of Rule 15c2-12. The inclusion of this information does not mean that the 2008 Bonds are secured by any resources or property of the City. See "SOURCES OF PAYMENT FOR THE 2008 BONDS" and "SPECIAL RISK FACTORS—Limited Obligations." The District has not entered into any previous undertakings. The full text of the Disclosure Certificate is set forth in Appendix D.

Prior to March 2004, the City had never failed to comply with its previous undertakings with regard to Rule 15c2-12 to provide annual reports or notices of material events. Since that date the City has failed to comply with various filing deadlines for a number of previous undertakings due to the lack of availability of the City's audited financial statements, as described in greater detail below.

In September 2003, the City found errors in various financial statements for the fiscal year ended June 30, 2002. As a result of the discovery of the errors regarding the results in certain 2002 financial statements, the City retained the accounting firm of KPMG LLP to perform a full scope audit on the 2003 financial statements, and on March 16, 2007 KPMG released an unqualified opinion regarding the City's 2003 financial statements. On May 11, 2007, Macias, the City's current auditing firm, released an unqualified opinion on the City's financial statements for fiscal year 2004. On October 26, 2007, Macias released an unqualified opinion on the City's 2005 financial statements. On December 13, 2007, the 2005 financial statements were reopened for the limited purpose of reviewing Note 18 of such financial statements with respect to issues related to the City's pension system. On February 8, 2008, an updated opinion was provided by Macias expressing an unqualified opinion on the City's financial statements, including specific references and revisions to the fiscal year 2005 Comprehensive Annual Financial Report (the "CAFR") made to the Letter of Transmittal, Note 12 and Note 18. The 2005 CAFR will undergo review by the City Audit Committee and the City Council's review and file action prior to filing for the purposes of the annual reports. The City's financial statements for the fiscal years ended June 30, 2006 and 2007 have not been completed, although the City expects that such financial statements will be completed during calendar year 2008.

On February 8, 2008, the City filed annual reports (including financial statements) on securities issued by the Public Facilities Financing Authority of the City of San Diego that are secured by either the Water Utility Fund or Sewer Revenue Fund for the 2003 and 2004 fiscal years. In addition, on December 11, 2007 the City filed the annual report (including financial statements) relating to 8 securities that are secured directly or indirectly by the City's General Fund for the fiscal years 2003 and 2004. With regard to special tax and assessment bonds, the various districts filed reports for fiscal year ended June 30, 2003 on time without financial statements, did not file reports for fiscal year ended June 30, 2004 when due, filed reports for fiscal years ended June 30, 2004 and June 30, 2005 prior to the filing deadline for the report due June 30, 2005 without financial statements, filed the reports for fiscal years ended June 30, 2006 on time without financial statements and anticipate filing the reports for the fiscal year ended June 30, 2007 on time without financial statements. The 2003 and 2004 financial statements have been filed with the Repositories.

The City is not current with respect to the following continuing disclosure reports for the fiscal years ended June 30, 2005 and 2006 and anticipates not being current with respect to the following reports for the

fiscal year ended June 30, 2007 due to the unavailability of the financial statements for the 2006 and 2007 fiscal years:

<i>Issue Name</i>	<i>Delinquent (Fiscal Year Ended June 30)</i>
General Fund Supported Obligations	
\$33,430,000 City of San Diego, California Certificates of Participation (Balboa Park and Mission Bay Park Capital Improvements Program) Series 1996A	2005, 2006 and 2007
\$11,720,000 City of San Diego, California Refunding Certificates of Participation (Balboa Park and Mission Bay Park Capital Improvements Program, Series 1991) Series 1996B	2005, 2006 and 2007
\$17,425,000 City of San Diego 2003 Certificates of Participation (1993 Balboa Park/Mission Bay Park Refunding) Evidencing Undivided Proportionate Interest in Lease Payments to be Made by the City of San Diego Pursuant to a Lease with the San Diego Facilities and Equipment Leasing Corporation	2005, 2006 and 2007
\$68,425,000 Public Facilities Financing Authority of the City of San Diego Taxable Lease Revenue Bonds, Series 1996A (San Diego Jack Murphy Stadium)	2005, 2006 and 2007
\$25,070,000 Public Facilities Financing Authority of the City of San Diego Lease Revenue Bonds, Series 2002B (Fire and Life Safety Facilities Project)	2005, 2006 and 2007
\$169,685,000 Public Facilities Financing Authority of the City of San Diego Lease Revenue Bonds, Series 2002 (Ballpark Project)	2005, 2006 and 2007
\$205,000,000 Convention Center Expansion Financing Authority Lease Revenue Bonds, Series 1998A (City of San Diego, California, as Lessee)	2005, 2006 and 2007
\$15,255,000 City of San Diego/MTDB Authority 2003 Lease Revenue Refunding Bonds (San Diego Old Town Light Rail Transit Extension Refunding)	2005, 2006 and 2007
Special Tax and Assessment Bonds	
\$59,465,000 City of San Diego Community Facilities District No. 1 (Miramar Ranch North) Special Tax Refunding Bonds, Series 1998	2005, 2006 and 2007
\$56,020,000 Community Facilities District No. 2 (Santaluz) Improvement Area No. 1 Special Tax Bonds Series A of 2000	2005, 2006 and 2007
\$5,000,000 Community Facilities District No. 2 (Santaluz) Improvement Area No. 1 Special Tax Bonds Series A of 2004	2005, 2006 and 2007
\$4,350,000 Community Facilities District No. 2 (Santaluz) Improvement Area No. 3 Special Tax Bonds Series B of 2000	2005, 2006 and 2007
\$9,965,000 Community Facilities District No. 2 (Santaluz) Improvement Area No. 4 Special Tax Bonds Series A of 2004	2005, 2006 and 2007
Public Facilities Financing Authority of the City of San Diego \$30,515,000 Refunding Revenue Bonds (Reassessment District No. 1999-1) Series 1999-A Senior Lien Bonds / Public Facilities Financing Authority of the City of San Diego \$7,630,000 Refunding Revenue Bonds (Reassessment District No. 1999-1) Series 1999-B Subordinate Lien Bonds	2005, 2006 and 2007
\$8,850,000 City of San Diego Reassessment District 2003-1 Limited Obligation Refunding Bonds	2005, 2006 and 2007
\$5,430,000 City of San Diego Assessment District No. 4096 (Piper Ranch) Limited Obligation Improvement Bonds	2005, 2006 and 2007
Water and Sewer Bonds	
\$350,000,000 Public Facilities Financing Authority of the City of San Diego Sewer Revenue Bonds Series 1995 (Payable Solely from Installment Payments Secured by Wastewater System Net Revenues)	2005, 2006 and 2007
\$250,000,000 Public Facilities Financing Authority of the City of San Diego Sewer Revenue Bonds Series 1997 A and Series 1997 B (Payable Solely from Installment Payments Secured by Wastewater System Net Revenues)	2005, 2006 and 2007
\$315,410,000 Public Facilities Financing Authority of the City of San Diego Sewer Revenue Bonds Series 1999 A and Series 1999 B (Payable Solely from Installment Payments Secured by Wastewater System Net Revenues)	2005, 2006 and 2007
\$385,000,000 Certificates of Undivided Interest (In Installment Payments Payable From Net System Revenues of the Water Utility Fund of the City of San Diego, California) Series 1998	2005, 2006 and 2007
\$286,945,000 Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Bonds, Series 2002 (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund)	2005, 2006 and 2007
Tobacco Settlement Asset-Backed Bonds	
\$105,400,000 City of San Diego, California, Tobacco Settlement Revenue Funding Corporation Tobacco Settlement Asset-Backed Bonds Series 2006	2006 and 2007

To assist the Underwriters in complying with Rule 15c2-12(b)(5), the Developer will enter into a Continuing Disclosure Agreement (the "Developer Disclosure Agreement") covenanting to provide an Annual Report not later than May 15 of each year beginning May 15, 2008, a Semiannual Report on each November 15 commencing November 15, 2008, and notice of certain material events as they occur. The Annual Report provided by the Developer is to contain the audited financial statements of the Developer if the Developer and its Affiliates (as defined therein), in the aggregate, own property upon which 20% or more of the Special Taxes have been levied in the Fiscal Year for which the Annual Report is being provided, and the additional financial and operating data outlined in Section 4 of the Developer Disclosure Agreement attached in Appendix E. The Semiannual Report will contain certain operating data as set forth in Section 4 of the Developer Disclosure Agreement. The Developer has not previously entered into an agreement to provide continuing disclosure in accordance with Rule 15c2-12 but did agree with the purchasers of the 2006 Bonds to provide certain operating and financial data annually, which it has provided on a timely basis.

The obligations of the Developer under the Developer Disclosure Agreement will terminate upon the earliest to occur of: (i) the legal defeasance, prior redemption or payment in full of all the 2008 Bonds; (ii) the date on which the Developer (and all Affiliates of Developer (as defined in the Developer Disclosure Agreement) owning property in the District) are no longer responsible for the payment of 20 percent or more of the annual Special Tax levy and not less than 95% of the infrastructure improvements to be constructed by the Developer have been completed; or (iii) the date on which the Developer delivers to the District an opinion of nationally-recognized bond counsel to the effect that the continuing disclosure is no longer required under the Rule. The Developer has also agreed that, if an ownership interest in any property in the District is sold by the Developer which will result in the transferee becoming responsible for the payment of 20 percent or more of the annual Special Tax levy in the fiscal year following such transfer, the Developer will cause any such transferee to enter into a disclosure agreement described in Section 12 of the Developer Disclosure Agreement attached hereto in Appendix E.

The Developer Disclosure Agreement will inure solely to the benefit of the District, any Dissemination Agent, the Underwriters and Owners of the 2008 Bonds.

Any filings required to be made by the District under its Disclosure Certificate or by the Developer under the Developer Disclosure Agreement may be made through the Central Post Office as defined in Appendices D and E hereto.

LEGAL MATTERS

Tax Exemption

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the 2008 Bonds (including any original issue discount) is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the 2008 Bonds (including any original issue discount) will be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

In the opinion of Bond Counsel, the difference between the issue price of a 2008 Bond (the first price at which a substantial amount of the 2008 Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity of such 2008 Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to an Owner of the 2008 Bonds before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by an Owner of the 2008 Bonds will increase such owner's basis in the applicable 2008 Bond. The amount of original issue discount that accrues to the Owner of the 2008 Bonds is excluded from the gross

income of such Owner of the 2008 Bonds for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest on the 2008 Bonds (including any original issue discount) is based upon certain representations of fact and certifications made by the District, the Underwriters and others and is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code") that must be satisfied subsequent to the issuance of the 2008 Bonds to assure that interest on the 2008 Bonds (including any original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the 2008 Bonds (including any original issue discount) to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2008 Bonds. The District has covenanted to comply with all such requirements.

Should interest on the 2008 Bonds (including any original issue discount) become includable in gross income for federal income tax purposes, the 2008 Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed in accordance with the Bond Indenture.

On May 17, 2006, the President signed the Tax Increase Prevention and Reconciliation Act of 2005 (the "Tax Increase Prevention Act"). Under Section 6049 of the Internal Revenue Code of 1986, as amended by the Tax Increase Prevention Act, interest paid on tax-exempt obligations will be subject to information reporting in a manner similar to interest paid on taxable obligations. The effective date for this provision is for interest paid after December 31, 2005, regardless of when the tax-exempt obligation were issued. The purpose of this change was to assist in relevant information-gathering for the IRS relating to other applicable tax provisions. The Tax Increase Prevention Act provides that backup withholding may apply to such interest payments made after March 31, 2007, to any bondholder who fails to file an accurate Form W-9 or who meets certain other criteria. The information reporting and backup withholding requirements of the Tax Increase Prevention Act do not affect the excludability of such interest from gross income for federal income tax purposes.

It is possible that subsequent to the issuance of the 2008 Bonds there might be federal, State, or local statutory changes (or judicial or regulatory interpretations of federal, State, or local law) that affect the federal, State, or local tax treatment of the 2008 Bonds or the market value of the 2008 Bonds. No assurance can be given that subsequent to the issuance of the 2008 Bonds such changes or interpretations will not occur. On May 21, 2007, the U.S. Supreme Court agreed to review a Kentucky state court decision, in the matter of Kentucky v. Davis, on the issue of whether the U.S. Constitution commerce clause precludes states from giving more favorable tax treatment to state and local government bonds issued within that state than the tax treatment given bonds issued outside that state. The outcome of this or any similar case cannot be predicted, but the ultimate result could be a change in the treatment for state tax purposes of interest on the 2008 Bonds. If the Kentucky v. Davis decision is affirmed by the United States Supreme Court, states such as California may be required to eliminate the disparity between the income tax treatment of out-of-state tax-exempt obligations and the income tax treatment of in-state tax-exempt obligations, such as the 2008 Bonds. The impact of such a United States Supreme Court decision may also affect the market price for, or the marketability of the 2008 Bonds. Prospective purchasers of the 2008 Bonds should consult their tax advisors regarding this matter.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2008 Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2008 Bonds might be affected as a result of such an audit of the 2008 Bonds (or by an audit of similar bonds).

The amount by which an owner's original basis for determining loss on sale or exchange in the applicable 2008 Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable 2008 Bond premium, which must be amortized under Section 171 of the Code; such amortizable 2008 Bond premium reduces the owner's basis in the applicable 2008 Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of 2008 Bond premium may result in an Owner of the 2008 Bonds realizing a taxable gain when a 2008 Bond is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the 2008 Bond to the owner. Purchasers of the 2008 Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable 2008 Bond premium.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Bond Indenture and the Tax Certificate relating to the 2008 Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest (and original issue discount) with respect to any 2008 Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel has rendered an opinion that interest (and original issue discount) on the 2008 Bonds is excluded from gross income for federal income tax purposes provided that the District continues to comply with certain requirements of the Code, the ownership of the 2008 Bonds and the accrual or receipt of interest (and original issue discount) with respect to the 2008 Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2008 Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2008 Bonds.

The form of Bond Counsel's opinion with respect to the 2008 Bonds is attached as Appendix F.

Litigation

No litigation is pending or threatened concerning the validity of the 2008 Bonds, the pledge of Special Taxes to repay the 2008 Bonds, the powers or authority of the District with respect to the 2008 Bonds, or seeking to restrain or enjoin development of the land within the District and a certificate of the District to that effect will be furnished to the Underwriters at the time of the original delivery of the 2008 Bonds.

Legal Opinion

The validity of the 2008 Bonds and certain other legal matters are subject to the approving opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix F hereto and will accompany the 2008 Bonds. Certain legal matters will be passed upon for the City and the District by the City Attorney, and for the District by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel. Bond Counsel and Disclosure Counsel undertake no responsibility to the Owners of the 2008 Bonds for the accuracy, completeness or fairness of this Official Statement and expressly disclaims any duty to advise the Owners of the 2008 Bonds as to matters related to this Official Statement.

No Rating

The District has not made and does not contemplate making application to any rating agency for the assignment of a rating of the 2008 Bonds.

Underwriting

The 2008 Bonds are being purchased by Stone & Youngberg LLC and E. J. De La Rosa & Co. (together, the "Underwriters"). The Underwriters have agreed to purchase the 2008 Bonds at a price of \$_____ (being \$_____ aggregate principal amount thereof, less Underwriters' discount of \$_____ and less original issue discount/plus original issue premium of \$_____). The purchase agreement relating to the 2008 Bonds provides that the Underwriters will purchase all but not less than all of the 2008 Bonds. The obligation to make such purchase is subject to certain terms and conditions set forth in such purchase agreement, the approval of certain legal matters by counsel and certain other conditions.

The Underwriters may offer and sell the 2008 Bonds to certain dealers and others at prices lower than the offering price stated on the cover page hereof. The offering price may be changed from time to time by the Underwriters.

Financial Interests

The fees being paid to the Underwriters and Underwriters' Counsel and in part to Bond Counsel are contingent upon the issuance and delivery of the 2008 Bonds. From time to time, Bond Counsel represents the Underwriters on matters unrelated to the 2008 Bonds.

Pending Legislation

The District is not aware of any significant pending legislation which would have material adverse consequences on the 2008 Bonds or the ability of the District to pay the principal of and interest on the 2008 Bonds when due.

Additional Information

The purpose of this Official Statement is to supply information to prospective buyers of the 2008 Bonds. Quotations and summaries and explanations of the 2008 Bonds and documents contained in this Official Statement do not purport to be complete, and reference is made to such documents for full and complete statements and their provisions.

The execution and delivery of this Official Statement by the Chief Operating Officer of the City has been duly authorized by the City Council acting in its capacity as the legislative body of the District.

COMMUNITY FACILITIES DISTRICT NO. 3
(LIBERTY STATION)

By: _____
Chief Operating Officer

APPENDIX A-1

IMPROVEMENT AREA NO. 1 RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES

A Special Tax as hereinafter defined shall be levied on all Assessor's Parcels in Improvement Area No. 1 of Community Facilities District No. 3 ("IA No. 1") and collected each Fiscal Year commencing in Fiscal Year 2002-2003, in an amount determined by the Council through the application of the appropriate Special Tax for "Developed Property," "Other Taxable Property," and "Undeveloped Property" as described below. All of the real property in IA No. 1, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent and in the manner herein provided.

A. DEFINITIONS

This Rate and Method of Apportionment employs terms defined below and terms defined in the Rate and Method of Apportionment for Improvement Area No. 2. When necessary, terms defined in the latter shall be distinguished from terms defined in the former by including the words "IA No. 2" prior to the defined term. The terms hereinafter set forth have the following meanings:

"Acre or Acreage" means the land area of an Assessor's Parcel as shown on an Assessor's Parcel Map, or if the land area is not shown on an Assessor's Parcel Map, the land area shown on the applicable final map, parcel map, condominium plan, or other recorded County parcel map. The square footage of an Assessor's Parcel is equal to the Acreage multiplied by 43,560.

"Act" means the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, Division 2 of Title 5 of the California Government Code.

"Administrative Expenses" means the following actual or reasonably estimated costs directly related to the administration of CFD No. 3: the costs of computing the Special Taxes and IA No. 2 Special Taxes; the costs of preparing the annual Special Tax and IA No. 2 Special Tax collection schedules (whether by the City or designee thereof or both); the costs of collecting the Special Taxes and IA No. 2 Special Taxes (whether by the City, the County or otherwise); the costs of remitting the Special Taxes and IA No. 2 Special Taxes to the Trustee; the costs of the Trustee (including its legal counsel) in the discharge of the duties required of it under the Indenture; the costs to the City, CFD No. 3 or any designee thereof of complying with arbitrage rebate requirements; the costs to the City, CFD No. 3 or any designee thereof of complying with disclosure requirements of the City, CFD No. 3 or obligated persons associated with applicable federal and state securities laws and the Act; the costs associated with preparing Special Tax and/or IA No. 2 Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes and/or IA No. 2 Special Taxes; the costs of the City, of CFD No. 3 or any designee thereof related to an appeal of the Special Tax and/or the IA No. 2 Special Tax; the costs associated with the release of funds from an escrow account; and the City's annual administration fees and third party expenses. Administrative Expenses shall also include amounts estimated or advanced by the City or CFD No. 3 for any other administrative purposes of CFD No. 3, including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes and/or IA No. 2 Special Taxes.

"Agency" means the Redevelopment Agency of the City.

"Assessor's Parcel" means a lot or parcel shown in an Assessor's Parcel Map with an assigned Assessor's parcel number.

"Assessor's Parcel Map" means an official map of the Assessor of the County designating parcels by Assessor's Parcel number.

"Assigned Special Tax" means the Special Tax for each Land Use Class of Developed Property, as determined in accordance with Section C below.

"Backup Special Tax" means the Special Tax applicable to each Assessor's Parcel of Developed Property, as determined in accordance with Section C below.

"Backup Special Tax Appendix" means Attachment A to this RMA consisting of the Lot Maps and Backup Special Tax table, as it may be modified from time to time pursuant to Section C.1(c) of this RMA.

"CFD Administrator" means an official of the City, or designee thereof, responsible for determining the Special Tax Requirement and for levying and collecting the Special Taxes.

"CFD No. 3" means Community Facilities District No. 3 of the City.

"CFD No. 3 Bonds" means any bonds or other debt (as defined in Section 53317(d) of the Act), whether in one or more series, issued by CFD No. 3 under the Act.

"City" means the City of San Diego.

"City/Agency Property" means any Assessor's Parcel or other property within the boundaries of IA No. 1 that is owned by the City or the Agency, provided however that so long as any such Assessor's Parcel is conveyed through a leasehold interest to an entity other than the City or the Agency such Assessor's Parcel shall not be considered City/Agency Property, but during the duration of the leasehold interest shall be classified and taxed according to its development status and land use. In the event that an Assessor's Parcel that was conveyed in fee to an entity other than the City or the Agency includes an existing residential or non-residential building or a Planned Building, and is subsequently acquired by the City or the Agency pursuant to Section 9.10 of the Disposition and Development Agreement or otherwise, that Assessor's Parcel shall not be considered City/Agency Property, but shall remain subject to the Special Tax obligation and shall be classified and taxed according to its development status and land use.

"City Clerk" means the city clerk of the City.

"City Manager" means the city manager of the City.

"Council" means the City Council of the City, acting as the legislative body of CFD No. 3.

"County" means the County of San Diego.

"Developed Property" means for each Fiscal Year, all Taxable Property, exclusive of Other Taxable Property, which (i) was within a Final Map that was recorded prior to January 1 of the previous Fiscal Year, and (ii) for which a building permit for new construction was issued after March 1, 2001 but prior to March 1 of the previous Fiscal Year.

"Disposition and Development Agreement" means the Disposition and Development Agreement between the Agency and the Master Developer that was approved by the Council and Agency on June 26, 2000, as it may be modified or supplemented from time to time.

"Final Map" means (i) a final map, lot line adjustment, or parcel map, or portion thereof, approved by the City pursuant to the Subdivision Map Act (California Government Code Section 66410 *et seq.*) and recorded with the County Recorder that creates individual lots for which building permits may be issued, or (ii) for condominiums, a final map, or portion thereof, approved by the City and a condominium plan recorded pursuant to California Civil Code Section 1352 that creates individual lots for which building permits may be issued. The term "Final Map" shall not include any Assessor's Parcel Map or subdivision map or portion

thereof, that does not create individual lots for which a building permit may be issued, including Assessor's Parcels that are designated as remainder parcels.

"Fiscal Year" means the period starting July 1 and ending on the following June 30.

"Floor Area" means for Residential Property, all of the square footage of living area within the perimeter of a residential structure, not including any carport, walkway, garage, overhang, patio, enclosed patio, or similar area. The amount of Floor Area shall be determined by reference to the building permit(s) issued by the City for each building.

"Indenture" means the indenture, fiscal agent agreement, resolution or other instrument pursuant to which CFD No. 3 Bonds are issued, as modified, amended and/or supplemented from time to time, and any instrument replacing or supplementing the same.

"Improvement Area No. 1" or **"IA No. 1"** means Improvement Area No. 1 of CFD No. 3, as identified on the boundary map for CFD No. 3.

"Improvement Area No. 2" or **"IA No. 2"** means Improvement Area No. 2 of CFD No. 3, as identified on the boundary map for CFD No. 3.

"Land Use Class" means any of the classes listed in Table 1.

"Lot" means an individual legal lot created by a Final Map for which a building permit for residential construction has been or could be issued.

"Lot Map(s)" means the map(s) identifying the location and lot number of each Lot and proposed residential lot located within IA No. 1 included in the Backup Special Tax Appendix.

"Master Developer" means McMillin-NTC, LLC and/or any assignee(s) or successor(s) serving as the master developer of infrastructure within CFD No. 3.

"Maximum Special Tax" means the maximum Special Tax, determined in accordance with Section C below, that can be levied in any Fiscal Year on any Assessor's Parcel.

"Non-Residential Property" means all Developed Property for which a building permit(s) was issued for a non-residential use.

"Outstanding Bonds" means all CFD No. 3 Bonds which are deemed to be outstanding under the Indenture.

"Other Public Property" means any Assessor's Parcel within the boundaries of IA No. 1 that is owned in fee or through a leasehold interest by any agency of the federal government, the State, the County, or any other public agency except the City or the Agency, provided however that any such Assessor's Parcel that includes an existing residential or non-residential building or a Planned Building shall not be considered Other Public Property, but shall be classified and taxed according to its development status and land use.

"Other Taxable Property" means Taxable City/Agency Property, Taxable Property Owner Association Property, and Taxable Other Public Property.

"Planned Building" means with respect to an Assessor's Parcel that the Precise Plan contemplates the rehabilitation or construction of a residential or non-residential building within all or a portion of such Assessor's Parcel, as determined by the CFD Administrator.

“Precise Plan” means the NTC Precise Plan dated October 3, 2000, approved by the Agency and the City, as it may be amended or superseded.

“Property Owner Association Property” means any property within the boundaries of IA No. 1 owned in fee or by easement or irrevocably offered for dedication to a property owner association, including any master or sub-association. However, notwithstanding the above, any of such property which constitutes the “pad-area” located directly under a residential or occupied non-residential building shall not be considered Property Owner Association Property.

“Proportionately” or “Proportionate” means, (i) for Developed Property, that the ratio of the actual Special Tax levy to the Assigned Special Tax is equal for all Assessor’s Parcels of Developed Property and for IA No. 2 Developed Property that the ratio of the actual IA No. 2 Special Tax levy to the IA No. 2 Assigned Special Tax is equal for all Assessor’s Parcels of IA No. 2 Developed Property; (ii) for Undeveloped Property, that the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor’s Parcels of Undeveloped Property and the ratio of the actual IA No. 2 Special Tax per Acre to the IA No. 2 Maximum Special Tax per Acre is equal for all Assessor’s Parcels of IA No. 2 Undeveloped Property; and (iii) for Other Taxable Property that the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor’s Parcels of Other Taxable Property and for IA No. 2 Other Taxable Property that the ratio of the actual IA No. 2 Special Tax levy per Acre to the IA No. 2 Maximum Special Tax per Acre is equal for all Assessor’s Parcels of IA No. 2 Other Taxable Property. Where this RMA requires pursuant to the fourth and fifth steps in Section D.1, the second, third and fourth steps in Section D.2, and/or Section D.3, that the levy of Special Taxes and IA No. 2 Special Taxes be “Proportionate” for a category of property described in (i), (ii) or (iii) above, then the foregoing ratios shall be equal as between IA No. 1 and IA No. 2 for such category.

“Purchase and Finance Agreement” means the Purchase and Finance Agreement for CFD No. 3 that was approved by the Council on May 7, 2002, as it may be modified or supplemented from time to time.

“Residential Property” means all Developed Property for which a building permit has been issued for purposes of constructing one or more residential dwelling units.

“RMA” means Rate and Method of Apportionment.

“Special Tax” means the special tax to be levied in each Fiscal Year on each Assessor’s Parcel of Developed Property, Other Taxable Property, and Undeveloped Property to fund the Special Tax Requirement.

“Special Tax Requirement” means that amount required in any Fiscal Year to: (i) pay debt service due in the calendar year which commences in such Fiscal year on all Outstanding Bonds; (ii) pay periodic costs on the CFD No. 3 Bonds, including but not limited to, credit enhancement and rebate payments on the CFD No. 3 Bonds; (iii) pay Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for all Outstanding Bonds; (v) accumulate funds to pay directly for acquisition or construction of facilities identified on Exhibit A to the Purchase and Finance Agreement to the extent that the inclusion of such amount does not increase the Special Tax levy on Undeveloped Property or the IA No. 2 Special Tax levy on Undeveloped Property; and (vi) pay for reasonably anticipated delinquent Special Taxes and IA No. 2 Special Taxes based on the delinquency rate for Special Taxes and IA No. 2 Special Taxes levied in the previous Fiscal Year; less (vii) a credit for funds available to reduce the annual Special Tax levy and IA No. 2 Special Tax levy, as determined by the CFD Administrator pursuant to the Indenture. The Special Tax Requirement represents the total amount to be levied in any Fiscal Year within IA No. 1 and IA No. 2.

“State” means the State of California.

“Taxable City/Agency Property” means all Assessor’s Parcels of City/Agency Property that are not exempt pursuant to Section E below.

“Taxable Other Public Property” means all Assessor’s Parcels of Other Public Property that are not exempt pursuant to Section E below.

“Taxable Property” means all of the Assessor’s Parcels within the boundaries of IA No. 1 which (i) have been conveyed in fee ownership or leasehold interest from the City and/or the Agency to an entity other than the City or the Agency, or that were so conveyed in fee ownership by the City and/or the Agency and were subsequently reacquired by the City and/or the Agency, and (ii) are not exempt from the Special Tax pursuant to law or Section E below.

“Taxable Property Owner Association Property” means all Assessor’s Parcels of Property Owner Association Property that are not exempt pursuant to Section E below.

“Trustee” means the trustee or fiscal agent under the Indenture.

“Undeveloped Property” means, for each Fiscal Year, all Taxable Property not classified as Developed Property or Other Taxable Property.

B. ASSIGNMENT TO LAND USE CATEGORIES

Each Fiscal Year, all Taxable Property within IA No. 1 shall be classified as Developed Property, Other Taxable Property, or Undeveloped Property, and shall be subject to Special Taxes in accordance with the rate and method of apportionment determined pursuant to Sections C and D below. Residential Property shall be assigned to Land Use Class 1. Non-Residential Property shall be assigned to Land Use Class 2. Each Assessor’s Parcel classified as Developed Property shall be further classified as one of the Lots depicted in the Lot Map included in the Backup Special Tax Appendix attached as Attachment A, as it may be modified from time to time strictly in conformance with Section C.1(c) below.

C. MAXIMUM SPECIAL TAX RATE

1. Developed Property

a. Maximum Special Tax

The Maximum Special Tax for each Assessor’s Parcel classified as Developed Property shall be the greater of (i) the amount derived by application of the Assigned Special Tax or (ii) the amount derived by application of the Backup Special Tax.

b. Assigned Special Tax

The Assigned Special Tax for each Land Use Class is shown below in Table 1.

TABLE 1

**Assigned Special Taxes for Developed Property
Improvement Area No. 1**

<i>Land Use Class</i>	<i>Land Use</i>	<i>Assigned Special Tax</i>
1	Residential Property	\$792.63 per dwelling unit plus \$1.2385 per square foot of Floor Area
2	Non-Residential Property	\$54,485 per Acre

c. Backup Special Tax

The Backup Special Tax for an Assessor's Parcel of Developed Property shall be the amount set forth in the Backup Special Tax table included in the Backup Special Tax Appendix for the corresponding Lot, as such Backup Special Tax Appendix is amended from time to time.

Prior to the issuance of CFD No. 3 Bonds, the Backup Special Tax Appendix shall be modified by the CFD Administrator upon the written request of the Master Developer in order to (i) conform the Lot Maps to the Lots designated in the most current Final Maps approved within IA No. 1 and (ii) the amounts in the Backup Special Tax table to the most current building product plans for those Lots. Upon receipt of the Master Developer's written request, the CFD Administrator shall assign a Backup Special Tax to each Lot in an amount equal to the Assigned Special Tax for each Lot based upon the most current building product plan for the Lot.

The Master Developer shall notify the CFD Administrator in writing each time a Final Map is approved or amended for property within IA No. 1.

Subsequent to the issuance of CFD No. 3 Bonds, the Backup Special Tax Appendix shall be modified by the CFD Administrator only to reflect any changes in the Lots pursuant to Final Maps approved or amended subsequent to the issuance of CFD No. 3 Bonds and to specify the Backup Special Tax amounts for the new Lots calculated as follows:

- (i) determine the aggregate Backup Special Taxes anticipated to apply to the changed Lots prior to the approval of the new or amended Final Maps;
- (ii) divide the result of (i) by the number of new Lots; and
- (iii) the amount determined in (ii) shall be the Backup Special Tax amount for each of the new Lots reflected in the modified Backup Special Tax table.

The modified Backup Special Tax Appendix shall be attached to an Amended Notice of Special Tax Lien recorded within sixty (60) days of the CFD Administrator's receipt of the Master Developer's written request and, in the case of a modification based on Final Maps approved or amended subsequent to the issuance of CFD No. 3 Bonds, within sixty (60) days of the CFD Administrator being notified, by the Master Developer or otherwise, of the recordation of a new Final Map.

d. Multiple Land Use Classes

In some instances an Assessor's Parcel of Developed Property may contain more than one Land Use Class. The Assigned Special Tax levied on an Assessor's Parcel shall be the sum of the Assigned Special Taxes for all Land Use Classes located on that Assessor's Parcel. The Maximum Special Tax that can be levied on an Assessor's Parcel shall be the sum of the Maximum Special Taxes that can be levied for all Land Use Classes located on that Assessor's Parcel. For an Assessor's Parcel that contains both Residential Property and Non-Residential Property, the Acreage of such Assessor's Parcel shall be allocated to each type of property based on the amount of Acreage designated for each Land Use Class as determined by reference to the site plan approved for such Assessor's Parcel. The CFD Administrator's allocation to each type of property shall be final.

2. Other Taxable Property and Undeveloped Property

The Maximum Special Tax for Other Taxable Property and Undeveloped Property shall be \$54,485 per Acre.

D. METHOD OF APPORTIONMENT OF THE SPECIAL TAX

For each Fiscal Year the Council shall determine the Special Tax Requirement and levy the Special Tax, taking into consideration the levy of the IA No. 2 Special Tax, until the amount of Special Taxes and IA No. 2 Special Taxes equals the Special Tax Requirement. The Special Tax shall be levied each Fiscal Year as follows. The steps indicated in Section D.1 shall be applied in each Fiscal Year prior to and including the Fiscal Year in which a second series of CFD No. 3 Bonds is sold to finance facilities identified on Exhibit A to the Purchase and Finance Agreement. The steps indicated in Section D.2 shall be applied in the first Fiscal Year after the issuance of such second series of CFD No. 3 Bonds, and each Fiscal Year thereafter. A series of CFD No. 3 Bonds that is issued solely to refund a prior series of CFD No. 3 Bonds shall not be considered a second series of CFD No. 3 Bonds for purposes of this section.

1. *Prior to the Issuance of the Second Series of CFD No. 3 Bonds*

First: The Special Tax shall be levied on each Assessor's Parcel of Developed Property in an amount equal to 100% of the applicable Assigned Special Tax; and the Council shall be notified that under the terms of the IA No. 2 RMA, the IA No. 2 Special Tax shall be levied on each Assessor's Parcel of IA No. 2 Developed Property in an amount equal to 100% of the applicable IA No. 2 Assigned Special Tax;

Second: If additional monies are needed to satisfy the Special Tax Requirement after the first step has been completed, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property at up to 100% of the Maximum Special Tax for Undeveloped Property;

Third: If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, the Council shall be notified that under the terms of the IA No. 2 RMA, the IA No. 2 Special Tax shall be levied Proportionately on each Assessor's Parcel of IA No. 2 Undeveloped Property at up to 100% of the IA No. 2 Maximum Special Tax for Undeveloped Property;

Fourth: If additional monies are needed to satisfy the Special Tax Requirement after the first three steps have been completed, then the levy of the Special Tax on each Assessor's Parcel of Developed Property whose Maximum Special Tax is determined through the application of the Backup Special Tax shall be increased in equal percentages from the Assigned Special Tax up to the Maximum Special Tax for each such Assessor's Parcel; and the Council shall be notified that under the terms of the IA No. 2 RMA, the levy of the IA No. 2 Special Tax on each Assessor's Parcel of IA No. 2 Developed Property whose IA No. 2 Maximum Special Tax is determined through the application of the IA No. 2 Backup Special Tax shall be increased in equal percentages from the IA No. 2 Assigned Special Tax up to the IA No. 2 Maximum Special Tax for each such Assessor's Parcel, with the levy on Developed Property and IA No. 2 Developed Property being Proportionate;

Fifth: If additional monies are needed to satisfy the Special Tax Requirement after the first four steps have been completed, then the Special Tax shall be levied on each Assessor's Parcel of Other Taxable Property at up to the Maximum Special Tax for Other Taxable Property; and the Council shall be notified that under the terms of the IA No. 2 RMA, the IA No. 2 Special Tax shall be levied on each Assessor's Parcel of IA No. 2 Other Taxable Property at up to the IA No. 2 Maximum Special Tax for Other Taxable Property, with the levy on Other Taxable Property and IA No. 2 Other Taxable Property being Proportionate.

2. After the Issuance of the Second Series of CFD No. 3 Bonds

First: The Special Tax shall be levied on each Assessor's Parcel of Developed Property in an amount equal to 100% of the applicable Assigned Special Tax; and the Council shall be notified that under the terms of the IA No. 2 RMA, the IA No. 2 Special Tax shall be levied on each Assessor's Parcel of IA No. 2 Developed Property in an amount equal to 100% of the applicable IA No. 2 Assigned Special Tax;

Second: If additional monies are needed to satisfy the Special Tax Requirement after the first step has been completed, the Special Tax shall be levied on each Assessor's Parcel of Undeveloped Property at up to 100% of the Maximum Special Tax for Undeveloped Property; and the Council shall be notified that under the terms of the IA No. 2 RMA, the IA No. 2 Special Tax shall be levied on each Assessor's Parcel of IA No. 2 Undeveloped Property at up to 100% of the IA No. 2 Maximum Special Tax for Undeveloped Property, with the levy on Undeveloped Property and IA No. 2 Undeveloped Property being Proportionate;

Third: If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, then the levy of the Special Tax on each Assessor's Parcel of Developed Property whose Maximum Special Tax is determined through the application of the Backup Special Tax shall be increased in equal percentages from the Assigned Special Tax up to the Maximum Special Tax for each such Assessor's Parcel; and the Council shall be notified that under the terms of the IA No. 2 RMA, the levy of the IA No. 2 Special Tax on each Assessor's Parcel of IA No. 2 Developed Property whose IA No. 2 Maximum Special Tax is determined through the application of the IA No. 2 Backup Special Tax shall be increased in equal percentages from the IA No. 2 Assigned Special Tax up to the IA No. 2 Maximum Special Tax for each such Assessor's Parcel, with the levy on Developed Property and IA No. 2 Developed Property being Proportionate;

Fourth: If additional monies are needed to satisfy the Special Tax Requirement after the first three steps have been completed, then the Special Tax shall be levied on each Assessor's Parcel of Other Taxable Property at up to the Maximum Special Tax for Other Taxable Property; and the Council shall be notified that under the terms of the IA No. 2 RMA, the IA No. 2 Special Tax shall be levied on each Assessor's Parcel of IA No. 2 Other Taxable Property at up to the IA No. 2 Maximum Special Tax for Other Taxable Property, with the levy on Other Taxable Property and IA No. 2 Other Taxable Property being Proportionate.

3. Additional Levy Guidelines

Notwithstanding the above the Council may, in any Fiscal Year, levy Proportionately less than 100% of the Assigned Special Tax in step one of Section D.1 or D.2 (above) and the IA No. 2 Assigned Special Tax in step one of Section D.1 or D.2 (of the IA No. 2 RMA), when (i) the Council is no longer required to levy a Special Tax pursuant to step two in Section D.1 or D.2 (above) and the Council is no longer required to levy an IA No. 2 Special Tax pursuant to step two in Section D.2 of the IA No. 2 RMA in order to meet the Special Tax Requirement; (ii) all authorized CFD No. 3 Bonds have already been issued or the Council has covenanted that it will not issue any additional CFD No. 3 Bonds (except refunding bonds) to be supported by Special Taxes and IA No. 2 Special Taxes; and (iii) all facilities identified on Exhibit A to the Purchase and Finance Agreement have been acquired.

Further notwithstanding the above, under no circumstances will the Special Tax levied against any Assessor's Parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased by more than ten percent as a consequence of delinquency or default by the owner of any other Assessor's Parcel within CFD No. 3.

E. EXEMPTIONS

No Special Tax shall be levied on up to 15.54 Acres of City/Agency Property, Other Public Property, and/or Property Owner Association Property. However, the Acreage of any City/Agency Property that has never been conveyed in fee ownership or leasehold interest from the City and/or the Agency to an entity other than the City or the Agency shall not be included in the 15.54 Acres, and such property shall be considered exempt. Tax-exempt status for all other property will be assigned by the CFD Administrator in the chronological order in which property becomes City/Agency Property, Other Public Property, or Property Owner Association Property. However, should an Assessor's Parcel no longer be classified as City/Agency Property, Other Public Property, or Property Owner Association Property its tax-exempt status will be revoked.

City/Agency Property, Other Public Property, or Property Owner Association Property that is not exempt from Special Taxes under this section shall be subject to the levy of the Special Tax and shall be taxed as described in Section D above, at up to 100% of the applicable Maximum Special Tax for Other Taxable Property.

F. APPEALS AND INTERPRETATIONS

Any tax payer may file a written appeal of the Special Tax on his/her property with the CFD Administrator, provided that the appellant is current in his/her payments of Special Taxes. During the pendency of an appeal, all Special Taxes previously levied must be paid on or before the payment date established when the levy was made. The appeal must specify the reasons why the appellant claims the Special Tax is in error. The CFD Administrator shall review the appeal, meet with the appellant if the CFD Administrator deems necessary, and advise the appellant of its determination. If the CFD Administrator agrees with the appellant, the CFD Administrator shall make a recommendation to the City Manager or designee to eliminate or reduce the Special Tax on the appellant's property and/or to provide a refund to the appellant. The approval of the City Manager or designee must be obtained prior to any such elimination or reduction. If the CFD Administrator disagrees with the appellant and the appellant is dissatisfied with the determination, the appellant then has 30 days in which to appeal to the City Manager or designee by filing a written notice of appeal with the City Clerk, provided that the appellant is current in his/her payments of Special Taxes. The second appeal must specify the reasons for its disagreement with the CFD Administrator's determination. Interpretations may be made by the Council by ordinance or resolution for purposes of clarifying any vagueness or ambiguity in this Rate and Method of Apportionment.

G. MANNER OF COLLECTION

The Special Tax shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes; provided, however, that CFD No. 3 may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations, and may covenant to foreclose and may actually foreclose on delinquent Assessor's Parcels as permitted by the Act.

H. PREPAYMENT OF SPECIAL TAX

1. Prepayment in Full

The following definition applies to this Section H:

"CFD Public Facilities" means either \$20,780,000 in 2001 dollars, which shall increase by the Construction Inflation Index on July 1, 2002, and on each July 1 thereafter, or such lower number as (i) shall be determined by the CFD Administrator as sufficient to provide the public facilities to be provided by CFD No. 3 under the authorized Mello-Roos financing program for CFD No. 3, or (ii) shall be determined by the Council concurrently with a covenant that it will not issue any more

CFD No. 3 Bonds (except refunding bonds) to be supported by Special Taxes and IA No. 2 Special Taxes.

“Construction Fund” means the account (regardless of its name) identified in the Indenture to hold funds which are currently available for expenditure to acquire or construct public facilities eligible under the Act.

“Construction Inflation Index” means the annual percentage change in the Engineering News-Record Building Cost Index for the City of Los Angeles, measured as of the calendar year which ends in the previous Fiscal Year. In the event this index ceases to be published, the Inflation Index shall be another index as determined by the CFD Administrator that is reasonably comparable to the Engineering News-Record Building Cost Index for the City of Los Angeles.

“Future Facilities Costs” means the CFD Public Facilities minus (i) public facility costs previously paid from the Construction Fund, (ii) moneys currently on deposit in the Construction Fund, and (iii) moneys currently on deposit in an escrow fund that are expected to be available to finance public facility costs.

“Outstanding Bonds” means all Previously Issued Bonds which remain outstanding as of the first interest and/or principal payment date following the current Fiscal Year.

“Previously Issued Bonds” means all CFD No. 3 Bonds that have been issued prior to the date of prepayment.

Only an Assessor's Parcel of Developed Property, or an Assessor's Parcel of Undeveloped Property for which a building permit has been issued, may prepay its Special Tax obligation. The Special Tax obligation applicable to an Assessor's Parcel in CFD No. 3 may be prepaid and the obligation of the Assessor's Parcel to pay any Special Tax permanently satisfied as described herein, provided that a prepayment may be made with respect to a particular Assessor's Parcel only if there are no delinquent Special Taxes with respect to such Assessor's Parcel at the time of prepayment. An owner of an Assessor's Parcel intending to prepay the Special Tax obligation shall provide the CFD Administrator with written notice of intent to prepay. The CFD Administrator shall provide the owner with a statement of the prepayment amount for such Assessor's Parcel within thirty (30) days of the request and may charge a reasonable fee for providing this service. Prepayment must be made not less than 60 days prior to any redemption date for the CFD No. 3 Bonds to be redeemed with the proceeds of such prepaid Special Taxes.

The Prepayment Amount (defined below) shall be calculated as summarized below (capitalized terms as defined below):

	Bond Redemption Amount
	plus Redemption Premium
	plus Future Facilities Amount
	plus Defeasance Amount
	plus Administrative Fees and Expenses
	less Reserve Fund Credit
	<u>less Capitalized Interest Credit</u>
Total:	equals Prepayment Amount

As of the proposed date of prepayment, the Prepayment Amount (defined below) shall be calculated as follows:

Paragraph No.:

1. Confirm that no Special Tax delinquencies apply to such Assessor's Parcel.
2. For Assessor's Parcels of Developed Property, compute the Assigned Special Tax and Backup Special Tax. For Assessor's Parcels of Undeveloped Property for which a building permit has been issued, compute the Assigned Special Tax and Backup Special Tax for that Assessor's Parcel as though it was already designated as Developed Property, based upon the building permit which has already been issued for that Assessor's Parcel.
3. (a) Divide the Assigned Special Tax computed pursuant to paragraph 2 by the total estimated Assigned Special Taxes for the entire CFD No. 3 based on the Developed Property Special Taxes and IA No. 2 Developed Property Special Taxes which could be charged in the current Fiscal Year on all expected development through buildout of CFD No. 3 as determined by the CFD Administrator based on the Precise Plan and other information currently available, excluding any Assessor's Parcels which have been prepaid, and (b) Divide the Backup Special Tax computed pursuant to paragraph 2 by the total estimated Backup Special Taxes and IA No. 2 Backup Special Taxes at buildout for the entire CFD No. 3 as determined by the CFD Administrator based on the Precise Plan and other information currently available, excluding any Assessor's Parcels which have been prepaid.
4. Multiply the larger quotient computed pursuant to paragraph 3(a) or 3(b) by the Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (the "Bond Redemption Amount").
5. Multiply the Bond Redemption Amount computed pursuant to paragraph 4 by the applicable redemption premium (expressed as a percentage), if any, on the Outstanding Bonds to be redeemed (the "Redemption Premium").
6. Compute the current Future Facilities Costs.
7. Multiply the larger quotient computed pursuant to paragraph 3(a) or 3(b) by the amount determined pursuant to paragraph 6 to compute the amount of Future Facilities Costs to be prepaid (the "Future Facilities Amount").
8. Compute the amount needed to pay interest on the Bond Redemption Amount from the first bond interest and/or principal payment date following the current Fiscal Year until the earliest redemption date for the Outstanding Bonds.
9. Determine the Special Taxes levied on the Assessor's Parcel in the current Fiscal Year which have not yet been paid.
10. *Compute the minimum amount the CFD Administrator reasonably expects to derive from the reinvestment of the Prepayment Amount less the Future Facilities Amount and the Administrative Fees and Expenses from the date of prepayment until the redemption date for the Outstanding Bonds to be redeemed with the prepayment.*
11. Add the amounts computed pursuant to paragraphs 8 and 9 and subtract the amount computed pursuant to paragraph 10 (the "Defeasance Amount").
12. Verify the administrative fees and expenses of CFD No. 3, including the costs of computation of the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming CFD

No. 3 Bonds, and the costs of recording any notices to evidence the prepayment and the redemption (the "Administrative Fees and Expenses").

13. The reserve fund credit ("Reserve Fund Credit") shall equal the lesser of: (a) the expected reduction in the reserve requirement (as defined in the Indenture), if any, associated with the redemption of Outstanding Bonds as a result of the prepayment, or (b) the amount derived by subtracting the new reserve requirement (as defined in the Indenture) in effect after the redemption of Outstanding Bonds as a result of the prepayment from the balance in the reserve fund on the prepayment date, but in no event shall such amount be less than zero.
14. If any capitalized interest for the Outstanding Bonds will not have been expended at the time of the first interest and/or principal payment following the current Fiscal Year, a capitalized interest credit shall be calculated by multiplying the larger quotient computed pursuant to paragraph 3(a) or 3(b) by the expected balance in the capitalized interest fund after such first interest and/or principal payment (the "Capitalized Interest Credit").
15. The Special Tax prepayment is equal to the sum of the amounts computed pursuant to paragraphs 4, 5, 7, 11 and 12, less the amounts computed pursuant to paragraphs 13 and 14 (the "Prepayment Amount").
16. From the Prepayment Amount, the amounts computed pursuant to paragraphs 4, 5, 11, 13 and 14 shall be deposited into the appropriate fund as established under the Indenture and be used to retire Outstanding Bonds or make debt service payments. The amount computed pursuant to paragraph 7 shall be deposited into the Construction Fund. The amount computed pursuant to paragraph 12 shall be retained by CFD No. 3.

The Prepayment Amount may be sufficient to redeem other than a \$5,000 increment of CFD No. 3 Bonds. In such cases, the increment above \$5,000 or integral multiple thereof will be retained in the appropriate fund established under the Indenture to be used with the next prepayment of CFD No. 3 Bonds or to make debt service payments.

As a result of the payment of the current Fiscal Year's Special Tax levy as determined under paragraph 9 (above), the CFD Administrator shall remove the current Fiscal Year's Special Tax levy for such Assessor's Parcel from the County tax rolls. With respect to any Assessor's Parcel that is prepaid in full, the CFD Administrator shall cause a suitable notice to be recorded in compliance with the Act, to indicate the prepayment of Special Taxes and the release of the Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay the Special Tax shall cease.

Notwithstanding the foregoing, no Special Tax prepayment shall be allowed unless the amount of Maximum Special Taxes and IA No. 2 Maximum Special Taxes that may be levied on Taxable Property and IA No. 2 Taxable Property, respectively, after the proposed prepayment is at least 1.1 times the maximum annual debt service on all Outstanding Bonds.

2. Prepayment in Part

The Special Tax on an Assessor's Parcel of Developed Property or an Assessor's Parcel of Undeveloped Property for which a building permit has been issued may be partially prepaid. The amount of the prepayment shall be calculated as in Section H.1; except that a partial prepayment shall be calculated according to the following formula:

$$PP = P_E \times F.$$

These terms have the following meaning:

PP = the partial prepayment
P_E = the Prepayment Amount calculated according to Section H.1
F = the percentage by which the owner of the Assessor's Parcel(s) is partially prepaying the Special Tax.

The owner of any Assessor's Parcel who desires such prepayment shall notify the CFD Administrator of (i) such owner's intent to partially prepay the Special Tax, (ii) the percentage by which the Special Tax shall be prepaid, and (iii) the company or agency that will be acting as the escrow agent, if any. The CFD Administrator shall provide the owner with a statement of the amount required for the partial prepayment of the Special Tax for an Assessor's Parcel within thirty (30) days of the request and may charge a reasonable fee for providing this service.

With respect to any Assessor's Parcel that is partially prepaid, the City shall (i) distribute the funds remitted to it according to Section H.1, and (ii) indicate in the records of CFD No. 3 that there has been a partial prepayment of the Special Tax and that a portion of the Special Tax with respect to such Assessor's Parcel, equal to the outstanding percentage (1.00 - F) of the remaining Maximum Annual Special Tax, shall continue to be levied on such Assessor's Parcel pursuant to Section D.

I. TERM OF SPECIAL TAX

The Special Tax shall be levied for a period not to exceed forty years commencing with Fiscal Year 2002-2003, provided however that Special Taxes will cease to be levied in an earlier Fiscal Year if the CFD Administrator has determined (i) that all required interest and principal payments on the CFD No. 3 Bonds have been paid; (ii) all facilities have been acquired and all reimbursements to the Master Developer have been paid pursuant to the Purchase and Finance Agreement; and (iii) all required Administrative Expenses have been paid.

ATTACHMENT A
BACKUP SPECIAL TAX APPENDIX

Backup Special Tax Table

NTC - UNIT No. 1

<i>Lot Number</i>	<i>Backup Special Tax</i>	<i>SFD, ROW or TH</i>	<i>House Plan Number</i>	<i>House Plan Sq. Ft.</i>
1	S 4,104.38	ROW	3	2,674
2	3,637.46	ROW	2	2,297
3	4,104.38	ROW	3	2,674
4	4,104.38	ROW	3	2,674
5	4,104.38	ROW	3	2,674
6	3,637.46	ROW	2	2,297
7	4,104.38	ROW	3	2,674
8	4,104.38	ROW	3	2,674
9	3,637.46	ROW	2	2,297
10	4,104.38	ROW	3	2,674
11	3,637.46	SFD	1	2,297
12	4,049.89	SFD	2	2,630
13	4,307.49	SFD	3	2,838
14	4,049.89	SFD	2	2,630
15	4,307.49	SFD	3	2,838
16	3,637.46	SFD	1	2,297
17	4,307.49	SFD	3	2,838
18	4,307.49	SFD	3	2,838
19	4,049.89	SFD	2	2,630
20	4,307.49	SFD	3	2,838
21	3,637.46	SFD	1	2,297
22	4,049.89	SFD	2	2,630
23	4,307.49	SFD	3	2,838
24	4,049.89	SFD	2	2,630
25	3,637.46	SFD	1	2,297
26	4,307.49	SFD	3	2,838
27	4,049.89	SFD	2	2,630
28	3,637.46	SFD	1	2,297
29	4,307.49	SFD	3	2,838
30	4,049.89	SFD	2	2,630
31	4,307.49	SFD	3	2,838
32	3,637.46	SFD	1	2,297
33	4,307.49	SFD	3	2,838
34	4,049.89	SFD	2	2,630
35	4,307.49	SFD	3	2,838
36	4,049.89	SFD	2	2,630
37	3,637.46	SFD	1	2,297
38	4,049.89	SFD	2	2,630
39	4,049.89	SFD	2	2,630
40	4,307.49	SFD	3	2,838
41	4,049.89	SFD	2	2,630
42	3,637.46	SFD	1	2,297
43	4,307.49	SFD	3	2,838
44	4,049.89	SFD	2	2,630
45	4,307.49	SFD	3	2,838
46	3,637.46	SFD	1	2,297
47	4,307.49	SFD	3	2,838
48	4,049.89	SFD	2	2,630
49	4,307.49	SFD	3	2,838
50	3,637.46	SFD	1	2,297
51	4,049.89	SFD	2	2,630
52	4,307.49	SFD	3	2,838
53	4,104.38	ROW	3	2,674
54	4,104.38	ROW	3	2,674

Backup Special Tax Table

NTC - UNIT No. 1

<i>Lot Number</i>	<i>Backup Special Tax</i>	<i>SFD, ROW or TH</i>	<i>House Plan Number</i>	<i>House Plan Sq. Ft.</i>
55	4,104.38	ROW	3	2,674
56	4,104.38	ROW	3	2,674
57	4,104.38	ROW	3	2,674
58	4,104.38	ROW	3	2,674
59	4,104.38	ROW	3	2,674
60	3,192.84	ROW	1	1,938
61	3,637.46	ROW	2	2,297
62	4,104.38	ROW	3	2,674
63	4,104.38	ROW	3	2,674
64	3,192.84	ROW	1	1,938
65	4,104.38	ROW	3	2,674
66	3,192.84	ROW	1	1,938
67	3,637.46	ROW	2	2,297
68	3,192.84	ROW	1	1,938
69	3,192.84	ROW	1	1,938
70	4,104.38	ROW	3	2,674
71	4,307.49	SFD	3	2,838
72	3,637.46	SFD	1	2,297
73	4,307.49	SFD	3	2,838
74	4,049.89	SFD	2	2,630
75	4,104.38	ROW	3	2,674
76	4,307.49	SFD	3	2,838
77	4,049.89	SFD	2	2,630
78	3,637.46	SFD	1	2,297
79	4,307.49	SFD	3	2,838
80	4,049.89	SFD	2	2,630
81	4,049.89	SFD	2	2,630
82	3,637.46	SFD	1	2,297
83	4,307.49	SFD	3	2,838
84	4,049.89	SFD	2	2,630
85	4,307.49	SFD	3	2,838
86	4,307.49	SFD	3	2,838
87	4,049.89	SFD	2	2,630
88	3,637.46	SFD	1	2,297
89	4,307.49	SFD	3	2,838
90	4,049.89	SFD	2	2,630
91	4,049.89	SFD	2	2,630
92	4,307.49	SFD	3	2,838
93	4,049.89	SFD	2	2,630
94	4,307.49	SFD	3	2,838
95	4,049.89	SFD	2	2,630
96	4,307.49	SFD	3	2,838
97	3,637.46	SFD	1	2,297
98	4,049.89	SFD	2	2,630
99	4,307.49	SFD	3	2,838
100	3,637.46	ROW	2	2,297
101	3,637.46	ROW	2	2,297
102	4,104.38	ROW	3	2,674
103	3,192.84	ROW	1	1,938
104	3,637.46	ROW	2	2,297
105	<u>4,104.38</u>	ROW	3	<u>2,674</u>

105 \$ 419,225.01

271,295

Backup Special Tax Table

NTC - UNIT No. 2

<i>Lot Number</i>	<i>Backup Special Tax</i>	<i>SFD, ROW or TH</i>	<i>Plan Number</i>	<i>Plan Sq. Ft.</i>
1	\$ 4,104.38	ROW	3	2,674
2	3,637.46	ROW	2	2,297
3	4,104.38	ROW	3	2,674
4	4,104.38	ROW	3	2,674
5	3,637.46	ROW	2	2,297
6	4,104.38	ROW	3	2,674
7	4,104.38	ROW	3	2,674
8	4,104.38	ROW	3	2,674
9	4,104.38	ROW	3	2,674
10	3,192.84	ROW	1	1,938
11	4,104.38	ROW	3	2,674
12	4,104.38	ROW	3	2,674
13	3,637.46	ROW	2	2,297
14	3,637.46	ROW	2	2,297
15	4,104.38	ROW	3	2,674
16	4,307.49	SFD	3	2,838
17	3,637.46	SFD	1	2,297
18	4,049.89	SFD	2	2,630
19	4,307.49	SFD	3	2,838
20	4,049.89	SFD	2	2,630
21	3,637.46	ROW	2	2,297
22	3,192.84	ROW	1	1,938
23	3,637.46	ROW	2	2,297
24	3,192.84	ROW	1	1,938
25	3,192.84	ROW	1	1,938
26	3,637.46	ROW	2	2,297
27	3,192.84	ROW	1	1,938
28	4,104.38	ROW	3	2,674
29	4,307.49	SFD	3	2,838
30	4,049.89	SFD	2	2,630
31	4,307.49	SFD	3	2,838
32	4,049.89	SFD	2	2,630
33	3,637.46	SFD	1	2,297
34	3,637.46	ROW	2	2,297
35	3,192.84	ROW	1	1,938
36	3,637.46	ROW	2	2,297
37	3,192.84	ROW	1	1,938
38	3,192.84	ROW	1	1,938
39	3,637.46	ROW	2	2,297
40	3,192.84	ROW	1	1,938
41	4,104.38	ROW	3	2,674
42	4,104.38	ROW	3	2,674
43	3,192.84	ROW	1	1,938
44	3,637.46	ROW	2	2,297
45	4,104.38	ROW	3	2,674
46	3,637.46	ROW	2	2,297
47	4,104.38	ROW	3	2,674
48	3,637.46	ROW	2	2,297
49	4,104.38	ROW	3	2,674
50	3,637.46	ROW	2	2,297
51	4,104.38	ROW	3	2,674
52	3,192.84	ROW	1	1,938
53	3,637.46	ROW	2	2,297
54	4,104.38	ROW	3	2,674

Backup Special Tax Table

NTC - UNIT No. 2

<i>Lot Number</i>	<i>Backup Special Tax</i>	<i>SFD, ROW or TH</i>	<i>Plan Number</i>	<i>Plan Sq. Ft.</i>
55	4,104.38	ROW	3	2,674
56	3,192.84	ROW	1	1,938
57	4,104.38	ROW	3	2,674
58	3,637.46	ROW	2	2,297
59	3,192.84	ROW	1	1,938
60	3,637.46	ROW	2	2,297
61	4,104.38	ROW	3	2,674
62	3,637.46	ROW	2	2,297
63	4,104.38	ROW	3	2,674
64	3,637.46	ROW	2	2,297
65	3,637.46	ROW	2	2,297
66	3,192.84	ROW	1	1,938
67	3,637.46	ROW	2	2,297
68	4,104.38	ROW	3	2,674
69	4,104.38	ROW	3	2,674
70	3,192.84	ROW	1	1,938
71	3,637.46	ROW	2	2,297
72	3,192.84	ROW	1	1,938
73	3,637.46	ROW	2	2,297
74	3,192.84	ROW	1	1,938
75	3,192.84	ROW	1	1,938
76	3,637.46	ROW	2	2,297
77	3,192.84	ROW	1	1,938
78	3,192.84	ROW	1	1,938
79	3,192.84	ROW	1	1,938
80	3,192.84	ROW	1	1,938
81	3,637.46	ROW	2	2,297
82	3,192.84	ROW	1	1,938
83	3,192.84	ROW	1	1,938
84	3,192.84	ROW	1	1,938
85	3,192.84	ROW	1	1,938
86	4,104.38	ROW	3	2,674
87	3,192.84	ROW	1	1,938
88	3,192.84	ROW	1	1,938
89	3,192.84	ROW	1	1,938
90	3,192.84	ROW	1	1,938
91	3,637.46	ROW	2	2,297
92	3,192.84	ROW	1	1,938
93	3,192.84	ROW	1	1,938
94	3,192.84	ROW	1	1,938
95	3,192.84	ROW	1	1,938
96	4,104.38	ROW	3	2,674
97	4,104.38	ROW	3	2,674
98	3,192.84	ROW	1	1,938
99	3,192.84	ROW	1	1,938
100	3,637.46	ROW	2	2,297
101	3,192.84	ROW	1	1,938
102	3,637.46	ROW	2	2,297
103	3,192.84	ROW	1	1,938
104	<u>3,637.46</u>	ROW	2	<u>2,297</u>
104	\$ <u>378,337.18</u>			<u>238,921</u>

NTC - UNIT No. 2 (Condo's)

<i>Lot Number</i>	<i>Backup Special Tax</i>	<i>SFD, ROW or TH</i>	<i>Plan Number</i>	<i>Plan Sq. Ft.</i>
105-A	\$ 2,753.18	TH	4	1,583
105-B	2,161.17	TH	1	1,105
105-C	2,753.18	TH	4	1,583
105-D	2,753.18	TH	4	1,583
105-E	2,161.17	TH	1	1,105
105-F	2,753.18	TH	4	1,583
106-A	2,753.18	TH	4	1,583
106-B	2,161.17	TH	1	1,105
106-C	2,458.41	TH	3	1,345
106-D	2,458.41	TH	3	1,345
106-E	2,161.17	TH	1	1,105
106-F	2,753.18	TH	4	1,583
107-A	2,753.18	TH	4	1,583
107-B	2,137.64	TH	1Y	1,086
107-C	2,143.83	TH	1X	1,091
107-D	2,753.18	TH	4	1,583
107-E	2,753.18	TH	4	1,583
107-F	2,143.83	TH	1X	1,091
107-G	2,137.64	TH	1Y	1,086
107-H	2,753.18	TH	4	1,583
108-A	2,458.41	TH	3	1,345
108-B	2,161.17	TH	1	1,105
108-C	2,753.18	TH	4	1,583
108-D	2,753.18	TH	4	1,583
108-E	2,161.17	TH	1	1,105
108-F	2,458.41	TH	3	1,345
109-A	2,753.18	TH	4	1,583
109-B	2,137.64	TH	1Y	1,086
109-C	2,143.83	TH	1X	1,091
109-D	2,137.64	TH	1Y	1,086
109-E	2,143.83	TH	1X	1,091
109-F	2,161.17	TH	1	1,105
109-G	2,753.18	TH	4	1,583
109-H	2,753.18	TH	4	1,583
109-I	2,161.17	TH	1	1,105
109-J	2,143.83	TH	1X	1,091
109-K	2,137.64	TH	1Y	1,086
109-L	2,161.17	TH	1	1,105
109-M	2,161.17	TH	1	1,105
109-N	2,753.18	TH	4	1,583
109-O	2,753.18	TH	4	1,583
109-P	2,137.64	TH	1Y	1,086
109-Q	2,143.83	TH	1X	1,091
109-R	2,137.64	TH	1Y	1,086
109-S	2,143.83	TH	1X	1,091
109-T	2,161.17	TH	1	1,105
109-U	2,753.18	TH	4	1,583
109-V	2,753.18	TH	4	1,583
109-W	2,161.17	TH	1	1,105
109-X	2,143.83	TH	1X	1,091
109-Y	2,137.64	TH	1Y	1,086
109-Z	2,161.17	TH	1	1,105
109-A1	2,161.17	TH	1	1,105
109-B1	2,753.18	TH	4	1,583
110-A	2,753.18	TH	4	1,583

<i>Lot Number</i>	<i>Backup Special Tax</i>	<i>SFD, ROW or TH</i>	<i>Plan Number</i>	<i>Plan Sq. Ft.</i>
110-B	2,161.17	TH	1	1,105
110-C	2,137.64	TH	1Y	1,086
110-D	2,143.83	TH	1X	1,091
110-E	2,161.17	TH	1	1,105
110-F	2,753.18	TH	4	1,583
110-G	2,753.18	TH	4	1,583
110-H	2,161.17	TH	1	1,105
110-I	2,143.83	TH	1X	1,091
110-J	2,137.64	TH	1Y	1,086
110-K	2,161.17	TH	1	1,105
110-L	2,753.18	TH	4	1,583
111-A	2,753.18	TH	4	1,583
111-B	2,137.64	TH	1Y	1,086
111-C	2,143.83	TH	1X	1,091
111-D	2,458.41	TH	3	1,345
111-E	2,458.41	TH	3	1,345
111-F	2,161.17	TH	1	1,105
111-G	2,753.18	TH	4	1,583
111-H	2,753.18	TH	4	1,583
111-I	2,161.17	TH	1	1,105
111-J	2,458.41	TH	3	1,345
111-K	2,458.41	TH	3	1,345
111-L	2,143.83	TH	1X	1,091
111-M	2,137.64	TH	1Y	1,086
111-N	2,753.18	TH	4	1,583
112-A	2,753.18	TH	4	1,583
112-B	2,143.83	TH	1X	1,091
112-C	2,137.64	TH	1Y	1,086
112-D	2,458.41	TH	3	1,345
112-E	2,458.41	TH	3	1,345
112-F	2,137.64	TH	1Y	1,086
112-G	2,143.83	TH	1X	1,091
112-H	2,161.17	TH	1	1,105
112-I	2,753.18	TH	4	1,583
112-J	2,753.18	TH	4	1,583
112-K	2,161.17	TH	1	1,105
112-L	2,143.83	TH	1X	1,091
112-M	2,137.64	TH	1Y	1,086
112-N	2,458.41	TH	3	1,345
112-O	2,458.41	TH	3	1,345
112-P	2,137.64	TH	1Y	1,086
112-Q	2,143.83	TH	1X	1,091
112-R	2,753.18	TH	4	1,583
113-A	2,753.18	TH	4	1,583
113-B	2,161.17	TH	1	1,105
113-C	2,143.83	TH	1X	1,091
113-D	2,137.64	TH	1Y	1,086
113-E	2,161.17	TH	1	1,105
113-F	2,458.41	TH	3	1,345
113-G	2,458.41	TH	3	1,345
113-H	2,161.17	TH	1	1,105
113-I	2,137.64	TH	1Y	1,086
113-J	2,143.83	TH	1X	1,091
113-K	2,161.17	TH	1	1,105
113-L	2,753.18	TH	4	1,583

<i>Lot Number</i>	<i>Backup Special Tax</i>	<i>SFD, ROW or TH</i>	<i>Plan Number</i>	<i>Plan Sq. Ft.</i>
114-A	2,753.18	TH	4	1,583
114-B	2,143.83	TH	1X	1,091
114-C	2,137.64	TH	1Y	1,086
114-D	2,753.18	TH	4	1,583
114-E	2,753.18	TH	4	1,583
114-F	2,137.64	TH	1Y	1,086
114-G	2,143.83	TH	1X	1,091
114-H	2,753.18	TH	4	1,583
115-A	2,753.18	TH	4	1,583
115-B	2,161.17	TH	1	1,105
115-C	2,143.83	TH	1X	1,091
115-D	2,137.64	TH	1Y	1,086
115-E	2,143.83	TH	1X	1,091
115-F	2,137.64	TH	1Y	1,086
115-G	2,458.41	TH	3	1,345
115-H	2,458.41	TH	3	1,345
115-I	2,161.17	TH	1	1,105
115-J	2,161.17	TH	1	1,105
115-K	2,137.64	TH	1Y	1,086
115-L	2,143.83	TH	1X	1,091
115-M	2,161.17	TH	1	1,105
115-N	2,753.18	TH	4	1,583
116-A	2,458.41	TH	3	1,345
116-B	2,137.64	TH	1Y	1,086
116-C	2,143.83	TH	1X	1,091
116-D	2,753.18	TH	4	1,583
116-E	2,753.18	TH	4	1,583
116-F	2,143.83	TH	1X	1,091
116-G	2,137.64	TH	1Y	1,086
116-H	<u>2,458.41</u>	TH	3	<u>1,345</u>
140	<u>\$ 331,756.83</u>			<u>178,271</u>